

**SASKENERGY INCORPORATED
AND
SUBSIDIARIES**

FINANCIAL STATEMENTS

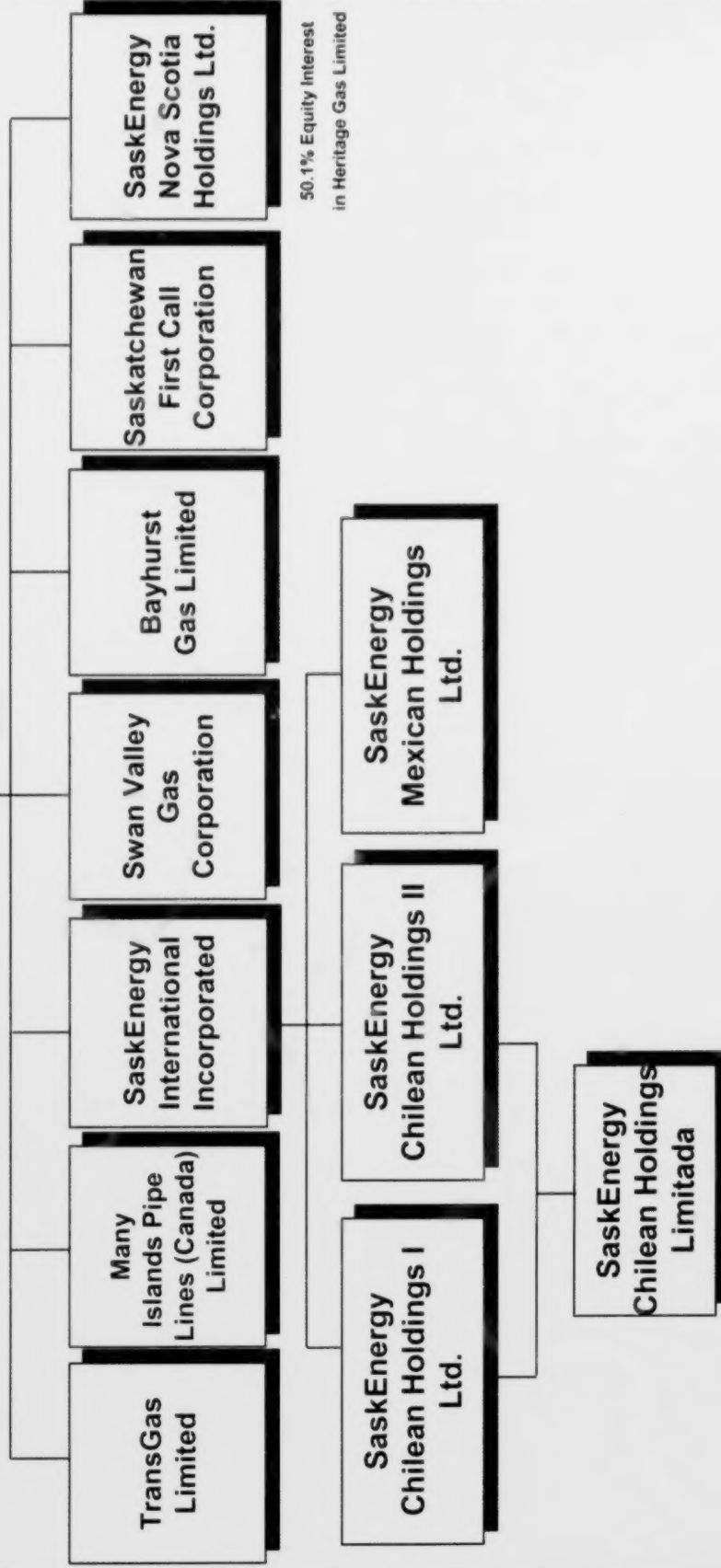
December 31, 2003

SASKENERGY INCORPORATED AND SUBSIDIARIES
FINANCIAL STATEMENTS
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104-05135/

SaskEnergy Incorporated
(Distribution Division) (Holdings Division)



50.1% Equity Interest
in Heritage Gas Limited

SASKENERGY INCORPORATED
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

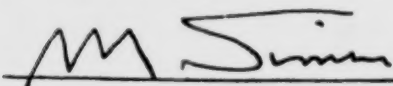
Regina, Saskatchewan
February 6, 2004

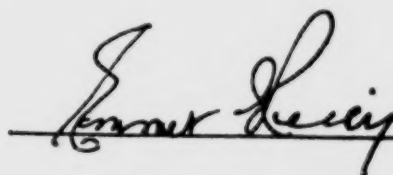
SASKENERGY INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ -	\$ 1,831
Accounts receivable		144,524	119,507
Natural gas in storage held for resale		82,102	105,618
Inventories of supplies		<u>6,458</u>	<u>5,329</u>
		233,084	232,285
PROPERTY, PLANT AND EQUIPMENT	4	940,267	921,179
INVESTMENTS AND OTHER ASSETS	5	34,789	29,652
NATURAL GAS IN STORAGE HELD FOR FOR RESALE AND OPERATIONS		<u>25,766</u>	<u>28,340</u>
		<u>\$ 1,233,906</u>	<u>\$ 1,211,456</u>
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ 1,295	\$ -
Short-term debt	6	110,000	173,200
Accounts payable		140,985	121,037
Dividend payable		10,560	4,460
Current portion of long-term debt	6	<u>34,997</u>	<u>4,040</u>
		297,837	302,737
LONG-TERM DEBT	6	<u>627,884</u>	<u>614,555</u>
TOTAL LIABILITIES		<u>925,721</u>	<u>917,292</u>
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	7	71,531	71,531
Retained earnings	3	237,738	223,373
Foreign currency translation adjustment	5	<u>(1,084)</u>	<u>(740)</u>
		<u>308,185</u>	<u>294,164</u>
		<u>\$ 1,233,906</u>	<u>\$ 1,211,456</u>
COMMITMENTS AND CONTINGENCIES	8		

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
REVENUE			
Delivery		\$ 164,825	\$ 165,060
Transportation and storage		80,983	67,649
Net sales from gas marketing	9	41,168	14,552
Revenue collected for municipalities	10	24,432	22,598
Other		<u>6,115</u>	<u>4,656</u>
		<u>317,523</u>	<u>274,515</u>
EXPENSES			
Operating and maintenance		114,666	111,798
Interest	6	52,075	52,136
Amortization of property, plant and equipment	4	48,759	47,516
Payments to municipalities	10	24,432	22,598
Saskatchewan taxes and royalties	11	<u>9,239</u>	<u>9,021</u>
Total expenses		<u>249,171</u>	<u>243,069</u>
Net earnings from operations before the following		<u>68,352</u>	<u>31,446</u>
Commodity revenue		374,658	377,276
Cost of gas sold		<u>401,985</u>	<u>401,858</u>
Loss from commodity sales		<u>(27,327)</u>	<u>(24,582)</u>
Net earnings		41,025	6,864
Retained earnings, beginning of year		223,373	220,969
Dividend		<u>(26,660)</u>	<u>(4,460)</u>
Retained earnings, end of year	3	<u>\$ 237,738</u>	<u>\$ 223,373</u>

(See accompanying notes)

SASKENERGY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings		\$ 41,025	\$ 6,864
Add items not requiring an outlay of cash			
Amortization of property, plant and equipment		48,759	47,516
Other non-cash items		<u>309</u>	<u>738</u>
		90,093	55,118
Net change in non-cash working capital related to operations	12	<u>17,318</u>	<u>46,640</u>
Cash provided by operating activities		<u>107,411</u>	<u>101,758</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(77,570)	(56,844)
Additions to investments and other assets		(6,685)	(5,269)
Customer capital contributions received		9,723	9,646
Decrease in natural gas in storage (non-current)		<u>2,574</u>	<u>2,250</u>
Cash used in investing activities		<u>(71,958)</u>	<u>(50,217)</u>
FINANCING ACTIVITIES			
Decrease in short-term debt		(63,200)	(44,992)
Sinking fund instalments		(4,540)	(4,040)
Increase in deferred charges		(279)	-
Proceeds from long-term debt		50,000	-
Dividend paid		<u>(20,560)</u>	<u>-</u>
Cash used in financing activities		<u>(38,579)</u>	<u>(49,032)</u>
INCREASE (DECREASE) IN CASH during year		(3,126)	2,509
CASH POSITION, beginning of year		<u>1,831</u>	<u>(678)</u>
CASH POSITION, end of year		<u>\$ (1,295)</u>	<u>\$ 1,831</u>
Cash position consists of cash less bank indebtedness.			
(See accompanying notes)			

SASKENERGY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Nova Scotia Holdings Ltd., Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

• Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2004 with the remainder classified as non-current.

- Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operation of the storage facilities.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

f. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

For natural gas purchased for resale, revenue is recognized in the financial statements upon completion of the delivery of natural gas.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

i. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates.

In these financial statements, amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales. Where the cost of gas sold exceeds commodity revenue from customers, the Government of Saskatchewan, at its discretion will decide whether the shortfall will be recovered from customers.

j. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

k. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

- Foreign currency exchange and interest rate risk management

The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

l. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. When made, these contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

m. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. **GAS COST VARIANCE ACCOUNT**

The GCVA, as at December 31, includes natural gas costs to be recovered from or refunded to customers as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Commodity sales revenue	\$ 374,448	\$ 377,281
Less:		
Cost of gas before interest on the GCVA	404,031	418,038
Interest on the GCVA	<u>1,593</u>	<u>439</u>
Loss from commodity sales during the year	31,176	41,196
Amounts not recoverable	(12,784)	-
Interest not recoverable	(1,133)	-
Balance, beginning of year to be collected from (refunded to) customers	<u>31,677</u>	<u>(9,519)</u>
Balance, end of year to be collected from customers in future years	<u>\$ 48,936</u>	<u>\$ 31,677</u>

The loss from commodity sales of \$31,176 thousand (2002 - \$41,196 thousand) is included in the December 31, 2003 retained earnings balance of \$237,738 thousand (2002 - \$223,373 thousand) on the statement of financial position.

As at April 30, 2003, the cost of gas sold exceeded commodity sales revenue by \$71,926 thousand. On April 24, 2003, the Corporation submitted a rate application to the Provincial Cabinet (Cabinet) for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel, an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Saskatchewan Rate Review Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by \$12,784 thousand. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA over \$20,000 thousand.

4. PROPERTY, PLANT AND EQUIPMENT

		2003			2002		
		(thousands)					
		<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Transmission and storage	\$	591,079	\$157,804	\$ 433,275	\$ 573,181	\$147,833	\$ 425,348
Distribution		589,744	157,801	431,943	566,118	141,704	424,414
Gathering, treatment and compression		151,993	55,199	96,794	157,780	55,262	102,518
Vehicles, equipment and other		143,865	77,964	65,901	134,621	67,578	67,043
Royalty interest		6,509	6,509	-	6,509	6,509	-
Construction in progress		23,298	-	23,298	5,943	-	5,943
		<u>\$1,506,488</u>	<u>\$455,277</u>	1,051,211	<u>\$ 1,444,152</u>	<u>\$418,886</u>	1,025,266
Less:							
Unamortized customer capital contributions				<u>110,944</u>			<u>104,087</u>
				<u>\$ 940,267</u>			<u>\$ 921,179</u>

Property, plant and equipment includes \$4,565 thousand (2002 – nil) which represents the Corporation's 50.1 per cent proportionate interest in Heritage Gas Limited.

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	<u>2003</u>	<u>2002</u>
	(thousands)	
Balance, beginning of year	\$104,087	\$ 97,190
Contributions received	9,723	9,646
Contributions amortized	<u>(2,866)</u>	<u>(2,749)</u>
Balance, end of year	<u>\$110,944</u>	<u>\$104,087</u>

b. Amortization

	<u>2003</u>	<u>2002</u>
	(thousands)	
Amortization of property, plant and equipment	\$ 51,625	\$ 50,265
Amortization of customer capital contributions	<u>(2,866)</u>	<u>(2,749)</u>
	<u>\$ 48,759</u>	<u>\$ 47,516</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.50 per cent during 2003 (3.55 per cent during 2002).

5. INVESTMENTS AND OTHER ASSETS

Investments and other assets are as follows:

		2003		2002	
		Per cent Ownership	Amount (thousands)	Per cent Ownership	Amount (thousands)
a.	Equity investments				
i.	Gas Sur S.A.	30.0	\$ 13,214	30.0	\$ 11,986
ii.	Igasamex USA Ltd.	40.1	<u>10,554</u>	12.4	<u>3,846</u>
	Total equity investments		<u>23,768</u>		<u>15,832</u>
b.	Deferred costs		<u>-</u>		<u>1,515</u>
c.	Other receivables		<u>122</u>		<u>-</u>
d.	Deferred charges				
	Unamortized deferred financing costs		7,080		7,850
	Unamortized past service costs		<u>3,819</u>		<u>4,455</u>
			<u>10,899</u>		<u>12,305</u>
	Total investments and other assets:		<u>\$ 34,789</u>		<u>\$ 29,652</u>

a. Investments:

i. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, the Corporation contributed incremental equity to Gas Sur S.A. of \$1,040 thousand. The Corporation's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder contributed its 70 per cent proportionate share. The total amount invested was \$13,784 thousand as at December 31, 2003 (2002 - \$12,740 thousand).

The Corporation's share of the foreign currency translation adjustment resulted in a \$66 thousand increase in the balance of the investment in Gas Sur S.A. (2002 - \$740 thousand reduction). The Corporation's 30 per cent share of Gas Sur S.A.'s 2003 net earnings was \$118 thousand (2002 - \$14 thousand loss).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand and is not being amortized.

ii. Igasamex USA Ltd.

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

On June 30, 2003, under authority of Order-in-Council 879/2001, the Corporation increased its equity interest in Igasamex USA Ltd. to 40.1 per cent. The total amount invested was \$10,880 thousand as at December 31, 2003 (2002 - \$3,846 thousand).

In 2002, the 12.4 per cent equity interest in Igasamex USA Ltd. was recorded using the cost basis of accounting. On June 30, 2003, the equity ownership in Igasamex USA Ltd. was increased to 40.1 per cent and as a result, the investment was accounted for by the equity basis of accounting from that date.

The Corporation's share of the foreign currency translation adjustment for 2003 resulted in a \$410 thousand reduction in the balance of the investment in Igasamex USA Ltd. The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2003 net earnings was \$84 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,240 thousand and is not being amortized.

The equity interest is held through general partnership and limited partnership units.

The Order-in-Council limits the investment in Igasamex USA Ltd. to a maximum of \$12,000 thousand United States dollars.

b. Deferred costs

On August 16, 2002, Heritage Gas Limited applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas Limited the franchise to distribute natural gas to six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas Limited accepted as of June 3, 2003. Since the date of franchise acceptance, Heritage Gas Limited has acquired and constructed gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003. As a result, during 2003, deferred costs were transferred to Heritage Gas Limited.

c. Other receivables

Other receivables is comprised of a regulatory receivable (\$122 thousand). The regulatory receivable includes an accrual of the revenue deficiency in Heritage Gas Limited based on the rate base employed over the period June 3 to December 31, 2003. The return on rate base is calculated using Heritage Gas Limited's weighted average cost of capital as approved by the NSUARB.

6. LONG-TERM DEBT

Years to Maturity	2003		2002	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	\$ 321,079	8.4	\$ 245,954	8.6
6 - 10	169,136	6.7	194,261	7.5
16 - 30	193,971	7.3	193,971	7.3
	684,186		634,186	
Less sinking fund equity	(26,121)		(20,407)	
Less due within one year	(34,997)		(4,040)	
Due to Province of Saskatchewan	623,068		609,739	
Other	4,816	13.5	4,816	13.5
Total long-term debt	\$ 627,884		\$ 614,555	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent for 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

During 2003, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 2.9 per cent (2002 - 4.0 per cent).

Short-term debt at December 31, 2003 consists of \$110,000 thousand (2002 - \$173,200 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.7 per cent (2002 - 2.7 per cent).

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	\$ 30,457	\$101,195	\$ 66,597	\$47,705	\$ 75,126
Sinking fund instalments	<u>4,540</u>	<u>4,540</u>	<u>3,790</u>	<u>3,790</u>	<u>3,790</u>
Total	<u>\$ 34,997</u>	<u>\$105,735</u>	<u>\$ 70,387</u>	<u>\$51,495</u>	<u>\$ 78,916</u>

e. Interest expense

Interest expense was as follows:

	<u>2003</u> (thousands)	<u>2002</u>
Interest expense on long-term debt	\$ 52,876	\$ 50,468
Interest expense on short-term debt	3,050	4,059
Amortization of deferred financing costs	1,053	1,111
Interest on cost of gas sold	(3,527)	(2,387)
Sinking fund earnings	(1,173)	(937)
Interest capitalized	<u>(204)</u>	<u>(178)</u>
	<u>\$ 52,075</u>	<u>\$ 52,136</u>

Cash interest paid during 2003 on long-term debt was \$53,091 thousand (2002 - \$50,466 thousand).

7. **EQUITY ADVANCES**

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

8. FINANCIAL INSTRUMENTS, COMMITMENTS AND CONTINGENCIES

➤ FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2003		2002	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(thousands)			
Long-term debt	\$ 689,002	\$ 790,799	\$ 639,002	\$ 741,938
Sinking fund equity	26,121	27,536	20,407	21,299
Natural gas price hedges				
owed to (by) SaskEnergy:				
- swaps	-	(13,986)	-	(12,498)
- options	412	751	-	-
Interest rate hedges				
owed to (by) SaskEnergy:				
- forward rate agreements	(6)	(145)	-	(129)

The fair values of the above instruments were based on the following:

- Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- Natural gas price swaps - The relevant index price in effect as at year end.
- Natural gas price options - The relevant index price in effect as at year end.
- Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividends payable and short-term debt) approximate fair value.

- The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2004.
- The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 1.6 petajoules in 2005 and 2006. The natural gas purchased in 2005 and 2006 will be held for operations.
- The Corporation has entered into forward sale agreements to deliver 5.4 petajoules of natural gas during 2004 and 2005. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 5.4 petajoules committed for sale during 2004 and 2005.

e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

f. Guarantees

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars (USD).

g. Letters of credit

- i. The Corporation has posted a \$3,006 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex defaults under the terms of its loan agreement with Bank One, N.A.

- ii. The Corporation has posted a \$10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.

- iii. The Corporation has posted a \$20 thousand letter of credit to Saskatchewan Industry and Resources.

➤ LEASES

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
\$226	\$195	\$199	\$204	\$210	\$547	\$1,581

9. NET SALES FROM GAS MARKETING

Net sales from gas marketing include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Competitive gas sales	\$ 271,651	\$ 331,103
Cost of gas	<u>230,483</u>	<u>316,551</u>
Margin	\$ <u>41,168</u>	\$ <u>14,552</u>

Of the \$271,651 thousand in gross revenue from natural gas sales noted above, \$21,658 thousand (2002 - \$13,378 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

10. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

a. Natural gas distribution

In accordance with regulations under *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was \$19,149 thousand (2002 - \$18,637 thousand).

b. Natural gas transmission

In accordance with regulations under *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings. In 2003, revenue collected and paid to municipalities was \$5,283 thousand (2002 - \$3,961 thousand).

11. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Corporate capital tax	\$ 4,615	\$ 6,080
Royalties	3,460	1,926
Mitigation payments and property taxes	<u>1,164</u>	<u>1,015</u>
	\$ <u>9,239</u>	\$ <u>9,021</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

12. NET CHANGE IN NON-CASH WORKING CAPITAL

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ (25,017)	\$ 26,204
Natural gas in storage – held for resale	23,516	(7,818)
Prepaid expenses	-	36,506
Inventories of supplies	(1,129)	(18)
Accounts payable	<u>19,948</u>	<u>(8,234)</u>
	<u>\$ 17,318</u>	<u>\$ 46,640</u>

13. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Revenue	\$ 42,090	\$ 31,378
Operating expenses	27,577	23,680
Customer capital contributions	3,345	2,567
Accounts receivable	1,505	2,346
Accounts payable	704	651

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

14. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$2,819 thousand (2002 - \$2,705 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accrued benefit liability	\$ 10,868	\$ 9,828
Benefits paid during the year	800	672
Net expense	2,295	1,219

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	<u>2003</u>	<u>2002</u>
Discount rate	5.00 per cent	5.25 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life (years)	8.6	8.6

15. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

Distribution (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

Transportation (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

A) Statement of Earnings (millions of dollars)

	Distribution		Transportation		Other ¹		Intercompany ²		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
REVENUE										
Delivery revenue	171.4	169.8	-	-	0.6	0.6	(7.2)	(5.3)	164.8	165.1
Transportation and storage	-	-	134.3	123.3	3.6	3.6	(56.9)	(59.3)	81.0	67.6
Net sales										
from gas marketing	-	-	-	28.3	35.3	-	5.9	(13.7)	41.2	14.6
Revenue collected for municipalities	19.1	18.6	5.3	4.0	-	-	-	-	24.4	22.6
Other	5.7	(2.0)	-	-	7.5	4.6	(7.1)	2.1	6.1	4.7
Revenue	<u>196.2</u>	<u>186.4</u>	<u>139.6</u>	<u>155.6</u>	<u>47.0</u>	<u>8.8</u>	<u>(65.3)</u>	<u>(76.2)</u>	<u>317.5</u>	<u>274.6</u>
EXPENSES										
Operating and maintenance	113.6	118.2	54.9	51.2	7.5	2.5	(61.3)	(60.1)	114.7	111.8
Interest	17.9	18.9	27.9	28.8	1.7	1.0	4.6	3.4	52.1	52.1
Amortization of capital assets	23.5	22.9	23.1	24.0	2.2	0.7	-	-	48.8	47.6
Payments to municipalities	19.1	18.6	5.3	4.0	-	-	-	-	24.4	22.6
Saskatchewan taxes and royalties	2.9	4.0	2.2	4.3	4.1	0.7	-	-	9.2	9.0
Expenses	<u>177.0</u>	<u>182.6</u>	<u>113.4</u>	<u>112.3</u>	<u>15.5</u>	<u>4.9</u>	<u>(56.7)</u>	<u>(56.7)</u>	<u>249.2</u>	<u>243.1</u>
Net earnings from operations before the following	<u>19.2</u>	<u>3.8</u>	<u>26.2</u>	<u>43.3</u>	<u>31.5</u>	<u>3.9</u>	<u>(8.6)</u>	<u>(19.5)</u>	<u>68.3</u>	<u>31.5</u>
Commodity revenue	374.4	377.3	-	-	0.4	0.3	(0.1)	(0.3)	374.7	377.3
Cost of gas sold	<u>405.6</u>	<u>418.5</u>	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>0.3</u>	<u>(4.3)</u>	<u>(16.9)</u>	<u>402.0</u>	<u>401.9</u>
Net revenue (loss) from commodity sales	<u>(31.2)</u>	<u>(41.2)</u>	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>-</u>	<u>4.2</u>	<u>16.6</u>	<u>(27.3)</u>	<u>(24.6)</u>
Net earnings (loss)	<u>(12.0)</u>	<u>(37.4)</u>	<u>26.2</u>	<u>43.3</u>	<u>31.2</u>	<u>3.9</u>	<u>(4.4)</u>	<u>(2.9)</u>	<u>41.0</u>	<u>6.9</u>

B) Statement of Financial Position (millions of dollars)

	Distribution		Transportation		Other ¹		Intercompany ²		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Current assets	228.3	202.5	42.9	54.6	7.8	5.4	(45.9)	(30.2)	233.1	232.3
Property, plant & equipment, & natural gas in storage	404.4	400.1	522.5	529.1	39.1	20.3	-	-	966.0	949.5
Investments & other assets	7.1	7.8	4.5	5.2	24.0	15.8	(0.8)	0.8	34.8	29.6
Total assets	639.8	610.4	569.9	588.9	70.9	41.5	(46.7)	(29.4)	1,233.9	1,211.4
Current liabilities	175.9	151.6	79.5	61.6	23.9	10.3	18.5	79.2	297.8	302.7
Long-term debt	251.6	266.1	314.5	335.1	15.5	13.6	46.3	(0.3)	627.9	614.5
Total liabilities	427.5	417.7	394.0	396.7	39.4	23.9	64.8	78.9	925.7	917.2
Total equity	212.3	192.7	175.9	192.2	31.5	17.6	(111.5)	(108.3)	308.2	294.2
Total liabilities and equity	639.8	610.4	569.9	588.9	70.9	41.5	(46.7)	(29.4)	1,233.9	1,211.4

¹The Other category includes Many Islands Pipelines (Canada) Limited, Bayhurst Gas Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

²The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

16. SASKATCHEWAN RATE REVIEW PANEL

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

17. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
FINANCIAL STATEMENTS
DECEMBER 31, 2003

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Distribution Division of SaskEnergy Incorporated as at December 31, 2003 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

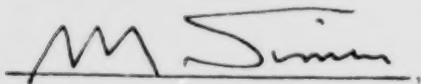
Regina, Saskatchewan
February 6, 2004

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

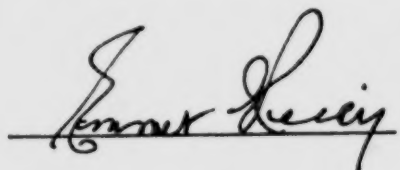
	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Accounts receivable		\$ 134,286	\$ 106,486
Natural gas in storage held for resale		81,745	84,891
Intercompany accounts receivable		6,437	6,250
Inventories of supplies		<u>5,856</u>	<u>4,833</u>
		228,324	202,460
PROPERTY, PLANT AND EQUIPMENT	4	404,429	400,129
DEFERRED CHARGES	5	<u>7,073</u>	<u>7,785</u>
		<u>\$ 639,826</u>	<u>\$ 610,374</u>
LIABILITIES AND HOLDINGS DIVISION'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ 53,020	\$ 44,625
Accounts payable		99,680	93,743
Intercompany accounts payable		9,105	11,555
Current portion of notes payable	6	<u>14,119</u>	<u>1,640</u>
		175,924	151,563
NOTES PAYABLE TO HOLDINGS DIVISION	6	<u>251,635</u>	<u>266,078</u>
		<u>427,559</u>	<u>417,641</u>
HOLDINGS DIVISION'S EQUITY			
Equity advances	7	277,410	245,910
Deficit	3	<u>(65,143)</u>	<u>(53,177)</u>
		<u>212,267</u>	<u>192,733</u>
		<u>\$ 639,826</u>	<u>\$ 610,374</u>
COMMITMENTS	8		

(See accompanying notes)

On behalf of the Board:

 ,

Director

 ,

Director

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
STATEMENT OF LOSS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
REVENUE			
Delivery revenue		\$ 171,411	\$ 169,845
Revenue collected for municipalities	9	19,149	18,637
Other revenue	10	<u>5,644</u>	<u>(2,040)</u>
		<u>196,204</u>	<u>186,442</u>
EXPENSES			
Operating and maintenance		69,505	68,115
Transportation and storage		44,116	50,107
Amortization of property, plant and equipment	4	23,496	22,897
Interest	6	17,864	18,861
Payments to municipalities	9	19,149	18,637
Saskatchewan taxes	11	<u>2,864</u>	<u>4,060</u>
Total expenses		<u>176,994</u>	<u>182,677</u>
Earnings from operations before the following		<u>19,210</u>	<u>3,765</u>
Commodity sales revenue		374,448	377,281
Cost of gas sold		<u>405,624</u>	<u>418,477</u>
Loss from commodity sales	3	<u>(31,176)</u>	<u>(41,196)</u>
Loss		(11,966)	(37,431)
Deficit, beginning of year		<u>(53,177)</u>	<u>(15,746)</u>
Deficit, end of year		<u>\$ (65,143)</u>	<u>\$ (53,177)</u>

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Loss		\$ (11,966)	\$ (37,431)
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment	4	25,203	24,555
Amortization of deferred charges	5	712	711
Amortization of customer capital contributions	4	(1,707)	(1,658)
Sinking fund earnings	6	(324)	(234)
		<u>11,918</u>	<u>(14,057)</u>
Net change in non-cash working capital related to operations	12	<u>(22,377)</u>	<u>66,364</u>
Cash provided by (used in) operating activities		<u>(10,459)</u>	<u>52,307</u>
INVESTING ACTIVITIES			
Net additions to property, plant and equipment		(31,190)	(30,310)
Increase in customer capital contributions	4	<u>3,394</u>	<u>3,794</u>
Cash used in investing activities		<u>(27,796)</u>	<u>(26,516)</u>
FINANCING ACTIVITIES			
Increase in equity advances from the Holdings Division	7	31,500	31,000
Increase (decrease) in bank indebtedness		8,395	(55,059)
Sinking fund installments	6	<u>(1,640)</u>	<u>(1,732)</u>
Cash provided by financing activities		<u>38,255</u>	<u>(25,791)</u>
INCREASE (DECREASE) IN CASH, during year		-	-
CASH, beginning of year		-	-
CASH, end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

b. Natural gas in storage held for resale

Natural gas in storage is stated at the lower of cost and net realizable value. Natural gas removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	4.0 to 10.0
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 50.0
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services		Vehicles, tools and equipment	8.0 to 11.1
(rural)	2.5	Furniture and fixtures	4.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Revenue recognition

Delivery and commodity revenue are recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

e. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

f. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates.

In these financial statements, amounts over-recovered or under-recovered during the year are reported as a gain or loss from commodity sales. Where the cost of gas sold exceeds commodity revenue from customers, the Government of Saskatchewan, at its discretion will decide whether the shortfall will be recovered from customers.

g. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

h. Hedge Accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and natural gas costs. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of loss and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

- Foreign currency exchange and interest rate risk management

The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

i. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. When made, these contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

j. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. GAS COST VARIANCE ACCOUNT

The GCVA, as at December 31, includes natural gas costs to be recovered from or refunded to customers as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Commodity sales revenue	\$ 374,448	\$ 377,281
Less:		
Cost of gas before interest on the GCVA	404,031	418,038
Interest on the GCVA	<u>1,593</u>	<u>439</u>
Loss from commodity sales during the year	31,176	41,196
Amounts not recoverable	(12,784)	-
Interest not recoverable	(1,133)	-
Balance, beginning of year to be collected from (refunded to) customers	<u>31,677</u>	<u>(9,519)</u>
Balance, end of year to be collected from customers in future years	<u>\$ 48,936</u>	<u>\$ 31,677</u>

The loss from commodity sales of \$31,176 thousand (2002 - \$41,196 thousand) is included in the December 31, 2003 deficit balance of \$65,143 thousand (2002 - \$53,177 thousand) on the statement of financial position.

As at April 30, 2003, the cost of gas sold exceeded commodity sales revenue by \$71,926 thousand. On April 24, 2003, the Corporation submitted a rate application to the Provincial Cabinet (Cabinet) for a commodity rate increase. Subject to a review by the Saskatchewan Rate Review Panel (the Panel), an interim commodity rate increase was approved by Cabinet effective May 1, 2003.

Following a review by the Panel, Cabinet gave final approval to a new commodity rate effective August 1, 2003. Included in the rate decision, Cabinet reduced the amount that could be recovered from customers through the GCVA by \$12,784 thousand. In addition, Cabinet disallowed interest that could be charged by the Corporation on any balance in the GCVA over \$20,000 thousand.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
			(thousands)			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Mains and services	\$ 494,864	\$132,453	\$362,411	\$ 479,804	\$119,296	\$360,508
Regulator stations	53,482	13,780	39,702	50,929	12,092	38,837
Metering	33,896	12,120	21,776	32,471	10,923	21,548
Computer systems	32,777	23,525	9,252	31,122	20,284	10,838
Vehicles, equipment	35,637	15,352	20,285	29,447	13,745	15,702
Tools, buildings and furniture	<u>27,177</u>	<u>7,453</u>	<u>19,724</u>	<u>25,901</u>	<u>6,171</u>	<u>19,730</u>
	<u>\$ 677,833</u>	<u>\$204,683</u>	473,150	<u>\$ 649,674</u>	<u>\$182,511</u>	467,163
Less:						
Unamortized customer capital contributions (see below)			<u>68,721</u>			<u>67,034</u>
			<u>\$404,429</u>			<u>\$400,129</u>

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	<u>2003</u>	<u>2002</u>
	(thousands)	(thousands)
Balance, beginning of year	\$ 67,034	\$ 64,898
Contributions received	3,394	3,794
Contributions amortized	<u>(1,707)</u>	<u>(1,658)</u>
Balance, end of year	<u>\$ 68,721</u>	<u>\$ 67,034</u>

b. Amortization

	<u>2003</u>	<u>2002</u>
	(thousands)	(thousands)
Amortization of property, plant and equipment	\$ 25,203	\$ 24,555
Amortization of customer capital contributions	<u>(1,707)</u>	<u>(1,658)</u>
	<u>\$ 23,496</u>	<u>\$ 22,897</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.8 per cent during 2003 (3.9 per cent during 2002).

Included in distribution assets is an amount of \$3,002 thousand (2002 - \$3,100 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2003 was \$98 thousand (2002- \$98 thousand).

5 DEFERRED CHARGES

Deferred charges include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Unamortized deferred financing charges	\$ 4,359	\$ 4,618
Unamortized past service costs	<u>2,714</u>	<u>3,167</u>
	<u>\$ 7,073</u>	<u>\$ 7,785</u>

6. NOTES PAYABLE TO HOLDINGS DIVISION

	<u>2003</u>		<u>2002</u>	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	\$ 148,044	7.75	\$ 102,508	8.05
6 - 10	16,035	9.76	61,571	7.78
16 - 30	<u>108,971</u>	6.33	<u>108,971</u>	6.33
	273,050		273,050	
Less sinking fund equity	<u>(7,296)</u>		<u>(5,332)</u>	
	265,754		267,718	
Less due within one year	<u>(14,119)</u>		<u>(1,640)</u>	
	<u>\$ 251,635</u>		<u>\$ 266,078</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent for 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	\$ 12,479	\$ 10,732	\$42,043	\$37,254	\$45,537
Sinking fund instalments	<u>1,640</u>	<u>1,640</u>	<u>1,640</u>	<u>1,640</u>	<u>1,340</u>
Total	<u>\$ 14,119</u>	<u>\$ 12,372</u>	<u>43,683</u>	<u>\$38,894</u>	<u>\$46,877</u>

d. Interest expense

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on notes payable to Holdings Division	\$ 19,939	\$ 19,939
Interest on bank indebtedness	1,568	1,400
Interest income on short-term investments	-	(10)
Amortization of deferred financing charges	259	259
Sinking fund earnings	(324)	(234)
Interest capitalized	(57)	(106)
Interest on cost of gas sold	<u>(3,521)</u>	<u>(2,387)</u>
	<u>\$ 17,864</u>	<u>\$ 18,861</u>

Cash interest paid during 2003 on notes payable to Holdings Division was \$19,939 thousand (2002 - \$19,939 thousand).

7. **EQUITY ADVANCES**

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Holdings Division advanced equity of \$31,500 thousand in 2003 (2002 - \$31,000 thousand).

8. FINANCIAL INSTRUMENTS AND COMMITMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2003		2002	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(thousands)			
Long-term debt	\$273,050	\$ 302,805	\$ 273,050	\$ 302,785
Sinking fund equity	7,296	7,691	5,332	5,565
Natural gas price hedges owed to (by) SaskEnergy:				
- swaps	-	(12,952)	-	436
- options	412	751	-	-

The fair values of the above instruments were based on the following:

- Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- Natural gas price swaps - The relevant index price in effect as at year end.
- Natural gas price options - The relevant index price in effect as at year end.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable and bank indebtedness) approximate fair value.

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

c. Letter of credit

SaskEnergy has posted a \$10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.

9. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

In accordance with regulations under *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of loss.

10. OTHER REVENUE

Other revenue includes the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Competitive gas sales	\$245,799	\$ 336,656
Cost of gas	<u>242,778</u>	<u>341,112</u>
Margin on competitive gas sales	3,021	(4,456)
Customer connect and late payment fees	1,954	1,963
Customer service fees	<u>669</u>	<u>453</u>
	<u>\$ 5,644</u>	<u>\$ (2,040)</u>

11. SASKATCHEWAN TAXES

Saskatchewan taxes include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Corporate capital tax	\$ 2,742	\$ 4,046
Property taxes	<u>122</u>	<u>14</u>
	<u>\$ 2,864</u>	<u>\$ 4,060</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

12. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ (27,800)	\$ 27,262
Natural gas in storage held for resale	3,146	14,137
Intercompany accounts receivable	(187)	132
Inventories of supplies	(1,023)	56
Prepaid expenses	-	36,506
Accounts payable	5,937	(9,921)
Intercompany accounts payable	<u>(2,450)</u>	<u>(1,808)</u>
	<u>\$ (22,377)</u>	<u>\$ 66,364</u>

13. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Transportation and storage	\$ <u>44,132</u>	\$ <u>50,132</u>
Cost of gas sold	\$ <u>3,575</u>	\$ <u>29,229</u>
Interest expense	\$ <u>19,873</u>	\$ <u>19,954</u>
Delivery revenue	\$ <u>10,031</u>	\$ <u>7,784</u>
Other revenue	\$ <u>3,930</u>	\$ <u>2,859</u>

- b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Operating expenses	\$ 18,446	\$ 17,012
Revenue	20,411	19,469
Accounts receivable	1,495	957
Customer capital contributions	632	632
Accounts payable	554	614

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

14. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$2,044 thousand (2002 - \$1,961 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accrued benefit liability	\$ 7,733	\$ 7,013
Benefits paid during the year	710	498
Net expense	1,882	889

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	<u>2003</u>	<u>2002</u>
Discount rate	5.00 per cent	5.25 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life (years)	8.5	8.5

15. SASKATCHEWAN RATE REVIEW PANEL

During 2000, The Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

16. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED

HOLDINGS DIVISION

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Holdings Division of SaskEnergy Incorporated as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These non-consolidated financial statements have been prepared primarily for tabling in the Legislative Assembly, Province of Saskatchewan. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting disclosed in note 3 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Legislative Assembly, Province of Saskatchewan. These financial statements are not intended to be and should not be used by anyone other than specified users or for any other purpose.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKENERGY INCORPORATED - HOLDINGS DIVISION

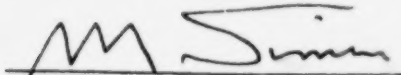
STATEMENT OF FINANCIAL POSITION

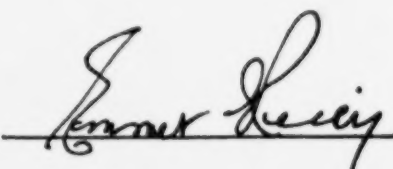
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ 18,809	\$ 31,840
Dividends receivable		38,509	36,344
Intercompany receivable		13,525	13,189
Accounts receivable		<u>-</u>	<u>982</u>
		70,843	82,355
INVESTMENTS	4	917,404	872,765
DEFERRED FINANCING CHARGES		7,037	7,848
DEFERRED COSTS		<u>-</u>	<u>1,515</u>
		<u>\$ 995,284</u>	<u>\$ 964,483</u>
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Short-term debt		\$ 110,000	\$ 173,200
Accounts payable		13,547	13,344
Dividend payable		10,560	4,460
Long-term debt due within one year	5	<u>34,997</u>	<u>4,040</u>
		169,104	195,044
LONG-TERM DEBT	5	<u>623,068</u>	<u>609,739</u>
TOTAL LIABILITIES		<u>792,172</u>	<u>804,783</u>
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	6	71,531	71,531
Retained earnings		<u>131,581</u>	<u>88,169</u>
		<u>203,112</u>	<u>159,700</u>
		<u>\$ 995,284</u>	<u>\$ 964,483</u>

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SASKENERGY INCORPORATED - HOLDINGS DIVISION
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
REVENUE			
Dividends		\$ 74,709	\$ 48,228
Interest		<u>50,211</u>	<u>50,503</u>
		<u>124,920</u>	<u>98,731</u>
EXPENSES			
Interest	5	<u>54,848</u>	<u>53,887</u>
Net earnings		70,072	44,844
Retained earnings, beginning of year		88,169	47,785
Dividend		<u>(26,660)</u>	<u>(4,460)</u>
Retained earnings, end of year		<u>\$131,581</u>	<u>\$ 88,169</u>

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings		\$ 70,072	\$ 44,844
Add item not requiring an outlay of cash			
Amortization of deferred financing costs		1,046	1,024
Sinking fund earnings		<u>(1,174)</u>	<u>(937)</u>
		69,944	44,931
Net change in non-cash working capital related to operations	7	<u>(1,316)</u>	<u>3,275</u>
Cash provided by operating activities		<u>68,628</u>	<u>48,206</u>
INVESTING ACTIVITIES			
Increase in investments		(44,639)	(30,424)
Decrease (increase) in deferred costs		<u>1,515</u>	<u>(1,515)</u>
Cash used in investing activities		<u>(43,124)</u>	<u>(31,939)</u>
FINANCING ACTIVITIES			
Increase in long-term debt		50,000	-
Decrease in short-term debt		(63,200)	(44,992)
Dividend paid		(20,560)	-
Sinking fund instalments		(4,540)	(4,040)
Increase in financing costs		<u>(235)</u>	<u>-</u>
Cash used in financing activities		<u>(38,535)</u>	<u>(49,032)</u>
DECREASE IN CASH during year		(13,031)	(32,765)
CASH POSITION , beginning of year		<u>31,840</u>	<u>64,605</u>
CASH POSITION , end of year		<u>\$ 18,809</u>	<u>\$ 31,840</u>

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. BASIS OF PRESENTATION

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost which is not in accordance with generally accepted accounting principles.

These non-consolidated financial statements are prepared to facilitate tabling in the Legislative Assembly. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted above, and applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Earnings distributions from the Distribution Division are recognized in income as dividends when receivable.

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these subsidiaries are recognized as income when receivable.

c. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in interest rates. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2003, the Corporation used derivative financial instruments to hedge interest rates.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

d. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

4. INVESTMENTS

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division:

	<u>2003</u>	<u>2002</u>
	(thousands)	
a. Loans receivable *	<u>\$603,516</u>	<u>\$605,471</u>
b. Equity investments		
Distribution Division**	277,410	245,910
SaskEnergy International Incorporated	29,385	16,320
TransGas Limited	4,001	4,001
Bayhurst Gas Limited	1,061	1,061
SaskEnergy Nova Scotia Holdings Ltd. ***	2,029	-
Swan Valley Gas Corporation	1	1
Saskatchewan First Call Corporation	1	1
Many Islands Pipe Lines (Canada) Limited ****	-	-
	<u>313,888</u>	<u>267,294</u>
Total investments	<u>\$917,404</u>	<u>\$872,765</u>

All companies are wholly owned subsidiaries of the Holdings Division

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt. They are net of sinking fund instalments received from these entities.

** During 2003, the Distribution Division transferred liabilities of \$31,500 thousand (2002 - \$31,000 thousand) to the Holdings Division, and the Holdings Division increased its equity advances to the Distribution Division by an equal amount. These transactions were recorded at carrying value.

*** The recorded cost of SaskEnergy Nova Scotia Holdings Ltd. shares is \$2,029 thousand (2002 - \$502).

**** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is \$101 (2002 - \$101).

5. LONG-TERM DEBT

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

Years to Maturity	2003		2002	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	\$ 321,079	8.4	\$ 245,954	8.6
6 - 10	169,136	6.7	194,261	7.5
16 - 30	<u>193,971</u>	7.3	<u>193,971</u>	7.3
	684,186		634,186	
Less sinking fund equity	<u>(26,121)</u>		<u>(20,407)</u>	
	658,065		613,779	
Less due within one year	<u>(34,997)</u>		<u>(4,040)</u>	
	<u>\$ 623,068</u>		<u>\$ 609,739</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	\$ 30,457	\$ 101,195	\$ 66,597	\$ 47,705	\$ 75,126
Sinking fund instalments	<u>4,540</u>	<u>4,540</u>	<u>3,790</u>	<u>3,790</u>	<u>3,490</u>
Total	<u>\$ 34,997</u>	<u>\$ 105,735</u>	<u>\$ 70,387</u>	<u>\$ 51,495</u>	<u>\$ 78,616</u>

d. Interest expense

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on long-term debt	\$ 52,228	\$ 49,816
Interest on short-term debt	2,747	3,984
Amortization of deferred financing costs	1,046	1,024
Sinking fund earnings	<u>(1,173)</u>	<u>(937)</u>
	<u>\$ 54,848</u>	<u>\$ 53,887</u>

Cash interest paid during 2003 on long-term debt was \$52,441 thousand (2002 - \$49,816 thousand)

6. **EQUITY ADVANCES**

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

7. **CHANGE IN NON-CASH WORKING CAPITAL**

The net change in non-cash working capital related to operations was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ 982	\$ (982)
Dividends receivable	(2,165)	7,329
Intercompany receivable	(336)	(3,072)
Accounts payable	<u>203</u>	<u>-</u>
	<u>\$ (1,316)</u>	<u>\$ 3,275</u>

8. **RELATED PARTY TRANSACTIONS**

Included in these financial statements are income and expense amounts resulting from operating transactions conducted with subsidiary corporations, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

9. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2003		2002	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(thousands)			
Long-term loans receivable	\$ 636,666	\$ 731,044	\$ 634,187	\$ 731,476
Sinking fund equity payable	25,618	27,006	20,408	21,299
Long-term debt	684,186	779,890	634,186	731,476
Sinking fund equity receivable	26,121	27,536	20,407	21,299
Interest rate hedges owed to (by) SaskEnergy:				
- forward rate agreements	(6)	(145)	-	(129)

The fair values of the above instruments were based on the following:

- i. Long-term loans receivable The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.
- ii. Long-term debt The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.
- iii. Sinking fund equity payable The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at year end.
- iv. Sinking fund equity receivable Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at year end.
- v. Interest rate hedges Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (dividends receivable, intercompany receivable, short-term debt, and accounts payable) approximate fair value.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 4. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2003.

10. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

TRANSGAS LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2003

Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

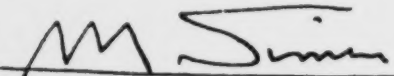
Regina, Saskatchewan
February 6, 2004

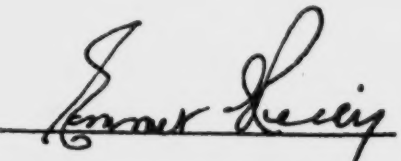
TRANSGAS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ 30,979	\$ 16,920
Accounts receivable		8,668	10,505
Intercompany accounts receivable		2,885	5,366
Inventories of supplies		371	496
Natural gas in storage held for resale	3	<u>-</u>	<u>21,352</u>
		42,903	54,639
PROPERTY, PLANT AND EQUIPMENT	4	502,345	500,803
NATURAL GAS IN STORAGE HELD FOR OPERATIONS		20,199	28,327
DEFERRED CHARGES	5	<u>4,478</u>	<u>5,183</u>
		<u>\$569,925</u>	<u>\$588,952</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 24,560	\$ 13,624
Dividend payable		21,500	32,565
Long-term debt due within one year	6	19,750	2,300
Intercompany accounts payable		<u>13,672</u>	<u>13,157</u>
		79,482	61,646
LONG-TERM DEBT	6	<u>314,524</u>	<u>335,113</u>
TOTAL LIABILITIES		<u>394,006</u>	<u>396,759</u>
SHAREHOLDER'S EQUITY			
Share capital	7	4,001	4,001
Retained earnings		<u>171,918</u>	<u>188,192</u>
		<u>175,919</u>	<u>192,193</u>
		<u>\$569,925</u>	<u>\$588,952</u>
COMMITMENTS	8		

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

TRANSGAS LIMITED
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
REVENUE			
Transportation and storage		\$ 134,394	\$ 123,319
Revenue collected for municipalities	9	5,283	3,961
Net revenue from natural gas sales	3	<u>-</u>	<u>28,294</u>
		<u>139,677</u>	<u>155,574</u>
EXPENSES			
Operating and maintenance		54,895	51,243
Interest	6	27,920	28,791
Amortization of property, plant and equipment	4	23,110	23,977
Payments to municipalities	9	5,283	3,961
Saskatchewan taxes and royalties	10	<u>2,229</u>	<u>4,325</u>
Total expenses		<u>113,437</u>	<u>112,297</u>
Net earnings		26,240	43,277
Retained earnings, beginning of year		188,192	188,192
Dividend		<u>(42,514)</u>	<u>(43,277)</u>
Retained earnings, end of year		<u>\$ 171,918</u>	<u>\$188,192</u>

(See accompanying notes)

TRANSGAS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings		\$ 26,240	\$ 43,277
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment	4	23,110	23,977
Amortization of deferred charges		705	706
Sinking fund earnings		<u>(839)</u>	<u>(702)</u>
		49,216	67,258
Net change in non-cash working capital related to operations	11	<u>17,594</u>	<u>(16,661)</u>
Cash provided by operating activities		<u>66,810</u>	<u>50,597</u>
INVESTING ACTIVITIES			
Sale of assets to an affiliate	3	33,226	-
Net additions to property, plant, and equipment		(40,708)	(25,972)
Increase in customer capital contributions		6,104	5,576
Decrease in natural gas in storage held for operations		<u>4,506</u>	<u>1,036</u>
Cash used in investing activities		<u>3,128</u>	<u>(19,360)</u>
FINANCING ACTIVITIES			
Dividend paid		(53,579)	(51,345)
Sinking fund instalments		<u>(2,300)</u>	<u>(2,300)</u>
Cash used in financing activities		<u>(55,879)</u>	<u>(53,645)</u>
INCREASE (DECREASE) IN CASH during year		14,059	(22,408)
CASH POSITION, beginning of year		<u>16,920</u>	<u>39,328</u>
CASH POSITION, end of year		<u>\$ 30,979</u>	<u>\$ 16,920</u>

(See accompanying notes)

TRANSGAS LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

TransGas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The Corporation operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of general supplies used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations is located within the Corporation's various storage facilities and is required for the ongoing operation of the storage facilities.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

e. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in natural gas purchase prices and interest rates. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that the Corporation use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

- Natural gas price risk management

The Corporation may hedge the purchase price of natural gas. The purchase price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments the Corporation may use to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

- Interest rate risk management

The Corporation uses financial instruments to hedge the interest rate on anticipated borrowing requirements. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps.

f. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. When made, these contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

g. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. TRANSFER OF ASSETS TO AN AFFILIATE

Effective January 1, 2003, the Corporation sold certain natural gas in storage held for resale and related assets to an affiliate, Bayhurst Gas Limited, as follows:

	(thousands)
Property, plant and equipment	\$ 9,952
Natural gas in storage:	
- Held for resale	21,352
- Held for operations	<u>3,622</u>
	34,926
Less assumption of accounts payable	<u>(1,700)</u>
Net sale price	<u>\$ 33,226</u>

The assets were sold for their carrying value.

In 2002 all revenue and expenses related to the assets transferred were included in the financial results of the Corporation. For 2003, the related revenue and expenses are reported in the financial statements of Bayhurst Gas Limited.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	(thousands)					
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Transmission and storage	\$559,225	\$150,411	\$408,814	\$546,574	\$142,016	\$404,558
Gathering, treatment and compression	145,130	53,961	91,169	156,546	54,634	101,912
Vehicles, equipment and other	54,928	31,168	23,760	49,543	26,938	22,605
Construction in progress	<u>17,912</u>	<u>-</u>	<u>17,912</u>	<u>5,943</u>	<u>-</u>	<u>5,943</u>
	<u>\$777,195</u>	<u>\$235,540</u>	<u>\$541,655</u>	<u>\$758,606</u>	<u>\$223,588</u>	<u>\$535,018</u>

Less:

Unamortized customer capital contributions (see below)	<u>39,310</u>	<u>34,215</u>
	<u>\$502,345</u>	<u>\$500,803</u>

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Balance, beginning of year	\$ 34,215	\$ 29,578
Contributions received	6,104	5,576
Contributions amortized	<u>(1,009)</u>	<u>(939)</u>
Balance, end of year	<u>\$ 39,310</u>	<u>\$ 34,215</u>

b. Amortization

	<u>2003</u>	<u>2002</u>
	(thousands)	
Amortization of property, plant and equipment	\$ 24,119	\$ 24,916
Amortization of customer capital contributions	<u>(1,009)</u>	<u>(939)</u>
	<u>\$ 23,110</u>	<u>\$ 23,977</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.2 per cent during 2003 (3.4 per cent during 2002).

Included in transmission assets is an amount of \$3,002 thousand (2002 - \$3,101 thousand) received from SEI (an affiliate) for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2003 was \$98 thousand (2002 - \$98 thousand).

5. DEFERRED CHARGES

Deferred charges include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Unamortized deferred financing costs	\$ 3,389	\$ 3,913
Unamortized past service costs	<u>1,089</u>	<u>1,270</u>
	<u>\$ 4,478</u>	<u>\$ 5,183</u>

6. LONG-TERM DEBT

	<u>2003</u>		<u>2002</u>	
<u>Years to</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u> (thousands)	<u>Average</u> <u>Fixed</u> <u>Interest</u> <u>Rate</u> (per cent)	<u>Principal</u> <u>Outstanding</u> (thousands)	<u>Average</u> <u>Fixed</u> <u>Interest</u> <u>Rate</u> (per cent)
Notes payable to parent				
1 - 5	\$ 170,150	8.9	\$ 141,432	8.9
6 - 10	102,422	6.9	131,140	7.4
21 - 25	<u>75,000</u>	8.8	<u>75,000</u>	8.8
	347,572		347,572	
Less sinking fund equity	<u>(18,114)</u>		<u>(14,975)</u>	
Notes payable	329,458		332,597	
Less due within one year	<u>(19,750)</u>		<u>(2,300)</u>	
Total notes payable	309,708		330,297	
Other debt	<u>4,816</u>	13.5	<u>4,816</u>	13.5
Long-term debt	<u>\$ 314,524</u>		<u>\$ 335,113</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SEI, TransGas Limited is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.20 per cent for 2003 (5.36 per cent for 2002).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	\$ 17,449	\$ 90,008	\$ 23,832	\$ 10,144	\$ 28,718
Sinking fund instalments	<u>2,300</u>	<u>2,300</u>	<u>1,550</u>	<u>1,550</u>	<u>1,550</u>
Total	<u>\$ 19,749</u>	<u>\$ 92,308</u>	<u>\$ 25,382</u>	<u>\$ 11,694</u>	<u>\$ 30,268</u>

d. Interest expense

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on notes payable to parent	\$ 28,881	\$ 28,881
Interest on other debt	650	650
Amortization of deferred financing costs	524	524
Interest income on short-term investments	(1,149)	(494)
Sinking fund earnings	(839)	(702)
Interest capitalized	<u>(147)</u>	<u>(68)</u>
	<u>\$ 27,920</u>	<u>\$ 28,791</u>

Cash interest paid during the year on notes payable to parent was \$28,881 thousand (2002 - \$28,881 thousand).

7. **SHARE CAPITAL**

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2002 - thirty) are issued and outstanding.

8. FINANCIAL INSTRUMENTS AND COMMITMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2003		2002	
	<u>Carrying Amount</u>	<u>Fair Value</u> (thousands)	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$352,388	\$421,320	\$352,388	\$424,017
Sinking fund equity	18,114	19,094	14,975	15,628
Natural gas price hedges owed to (by) TransGas:				
- swaps	-	483	-	(12,934)

The fair values of the above instruments were based on the following:

- Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- Natural gas price swaps - The relevant index price in effect as at year end.
- Natural gas price options - The relevant index price in effect as at year end.

The carrying values of other financial instruments (cash, accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value.

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 15), the Corporation has approximately 115 customers. There were no credit losses in 2003 (2002 - less than 0.1 per cent of total revenue).

- The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2004.
- The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 1.6 petajoules in 2005 and 2006. This natural gas will be purchased and held for operations.
- The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
\$226	\$195	\$199	\$204	\$210	\$547	\$1,581

9. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

In accordance with regulations under *The SaskEnergy Act*, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings.

10. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalty payments include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Corporate capital tax	\$ 1,829	\$ 2,009
Mitigation payments and property taxes	400	390
Royalties	<u>-</u>	<u>1,926</u>
	<u>\$ 2,229</u>	<u>\$ 4,325</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

In 2002 all revenue and expenses related to the assets transferred (described in note 3) were included in the financial results of the Corporation. For 2003, the related revenue and expenses are reported in the financial statements of Bayhurst Gas Limited.

11. NET CHANGE IN NON-CASH WORKING CAPITAL

	<u>2003</u>	<u>2002</u>
	(thousands)	
Natural gas in storage held for resale	\$ -	\$ (20,138)
Accounts payable	12,636	1,637
Intercompany accounts receivable	2,481	1,806
Accounts receivable	1,837	(104)
Intercompany accounts payable	515	210
Inventories of supplies	<u>125</u>	<u>(72)</u>
	<u>\$ 17,594</u>	<u>\$ (16,661)</u>

12. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Transportation and storage revenue	\$ <u>55,300</u>	\$ <u>57,065</u>
Net revenue from natural gas sales	\$ <u>-</u>	\$ <u>28,294</u>
Operating and maintenance expenses	\$ <u>15,251</u>	\$ <u>14,254</u>
Interest expense	\$ <u>27,390</u>	\$ <u>28,209</u>

These items have been recorded at their exchange amounts.

In 2002 all revenue and expenses related to the assets transferred (described in note 3) were included in the financial results of the Corporation. For 2003, the related revenue and expenses are reported in the financial statements of Bayhurst Gas Limited.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ 10	\$ 1,389
Accounts payable	150	37
Revenue	21,679	15,946
Operating expenses	6,378	6,635
Customer capital contributions	2,713	1,935

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

13. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$752 thousand (2002 - \$725 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communication, Energy and Papers Union, Local 649 is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accrued benefit liability	\$ 3,080	\$ 2,760
Benefits paid during the year	90	174
Net expense	410	322

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	<u>2003</u>	<u>2002</u>
Discount rate	5.00 per cent	5.25 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life (years)	8.6	8.7

14. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Accounts receivable		\$ 243	\$ 312
PROPERTY, PLANT AND EQUIPMENT	3	<u>18,317</u>	<u>18,130</u>
		<u>\$ 18,560</u>	<u>\$ 18,442</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ 693	\$ 574
Accounts payable		157	147
Intercompany accounts payable		445	204
Dividend payable		193	351
Notes payable due within one year	4	<u>609</u>	<u>80</u>
		2,097	1,356
NOTES PAYABLE TO PARENT	4	<u>11,015</u>	<u>11,638</u>
TOTAL LIABILITIES		<u>13,112</u>	<u>12,994</u>
SHAREHOLDER'S EQUITY			
Share capital	5	-	-
Retained earnings		<u>5,448</u>	<u>5,448</u>
		<u>5,448</u>	<u>5,448</u>
		<u>\$ 18,560</u>	<u>\$ 18,442</u>

(See accompanying notes)

On behalf of the Board:

M. Simon, Director

James Leung, Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
REVENUE			
Transportation		\$ 3,592	\$ 3,603
EXPENSES			
Operating and maintenance		1,240	1,130
Interest	4	870	861
Amortization of property, plant and equipment		650	645
Saskatchewan taxes	6	<u>639</u>	<u>601</u>
Total expenses		<u>3,399</u>	<u>3,237</u>
Net earnings		193	366
Retained earnings, beginning of year		5,448	5,448
Dividend		<u>(193)</u>	<u>(366)</u>
Retained earnings, end of year		<u>\$ 5,448</u>	<u>\$ 5,448</u>

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings		\$ 193	\$ 366
Add items not requiring an outlay of cash			
Amortization of property, plant, and equipment		650	645
Amortization of premium on note payable	4	(8)	(8)
Sinking fund earnings		(6)	(1)
Gain on disposal of property, plant and equipment		<u>-</u>	<u>(2)</u>
		829	1,000
Net change in non-cash working capital related to operations	7	<u>320</u>	<u>(534)</u>
Cash provided by operating activities		<u>1,149</u>	<u>466</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(837)	(262)
Proceeds from sale of property, plant and equipment		<u>-</u>	<u>79</u>
Cash used in investing activities		<u>(837)</u>	<u>(183)</u>
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness		119	(57)
Dividend paid		(351)	(146)
Repayment of notes payable to parent		<u>(80)</u>	<u>(80)</u>
Cash provided used in financing activities		<u>(312)</u>	<u>(283)</u>
INCREASE IN CASH during year		-	-
CASH POSITION, beginning of year		<u>-</u>	<u>-</u>
CASH POSITION, end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

Many Islands Pipe Lines (Canada) Limited (MIPL) was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. MIPL is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

As the Corporation is a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven interconnect Alberta to Saskatchewan pipelines, two interconnect United States and Saskatchewan pipelines, and one interconnects Manitoba and Saskatchewan pipelines. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent) transmission 2.6, compression 3.5, treatment 2.5, and other from 2.5 to 15.0.

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

c. Regulation

The business activities of the Corporation are regulated by the National Energy Board.

3. **PROPERTY, PLANT AND EQUIPMENT**

	2003			2002		
	(thousands)					
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Transmission	\$ 23,878	\$ 6,185	\$ 17,693	\$23,039	\$ 5,578	\$ 17,461
Compression	1,220	665	555	1,220	622	598
Treatment	14	6	8	14	6	8
Other	<u>521</u>	<u>460</u>	<u>61</u>	<u>528</u>	<u>465</u>	<u>63</u>
	<u>\$ 25,633</u>	<u>\$ 7,316</u>	<u>\$ 18,317</u>	<u>\$24,801</u>	<u>\$ 6,671</u>	<u>\$ 18,130</u>

The composite rate of amortization was 2.6 per cent during 2003 (2.6 per cent during 2001).

- a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was \$9,182 thousand and accumulated amortization of \$6,879 thousand had been recorded as of April 1, 1988.
- b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy Incorporated acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was \$264 thousand and accumulated amortization of \$151 thousand had been recorded as of April 11, 1991.
- c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was \$2,895 thousand and accumulated amortization of \$62 thousand had been recorded as of December 9, 1993.
- d. Pursuant to a NEB order dated September 28, 2000, the Corporation constructed a pipeline at an original cost of \$4,023 thousand. The pipeline commenced service December 3, 2000.

4. NOTES PAYABLE TO PARENT

Years to Maturity	2003		2002	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	\$ 2,885	10.1	\$ 2,014	10.5
6 - 10	680	9.8	1,551	9.3
16 - 30	8,000	6.4	8,000	6.4
Unamortized premium	226		234	
	11,791		11,799	
Less sinking fund equity	(167)		(81)	
Total notes payable to parent	11,624		11,718	
Less due within one year	(609)		(80)	
Notes payable to parent	<u>\$ 11,015</u>		<u>\$ 11,638</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy Incorporated, MIPL is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are held by SaskEnergy Incorporated.

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	\$ 529	\$ 455	\$ 723	\$ 307	\$ 871
Sinking fund instalments	<u>80</u>	<u>80</u>	<u>80</u>	<u>80</u>	<u>80</u>
Total	<u>\$ 609</u>	<u>\$ 535</u>	<u>\$ 803</u>	<u>\$ 387</u>	<u>\$ 951</u>

d. Interest expense

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on notes payable to parent	\$ 869	\$ 869
Interest on bank indebtedness	15	5
Sinking fund earnings	(6)	(1)
Amortization of premium	(8)	(8)
Interest capitalized	<u>-</u>	<u>(4)</u>
	<u>\$ 870</u>	<u>\$ 861</u>

e. Cash interest paid during the year on notes payable to parent was \$869 thousand (2002 - \$869 thousand).

5. **SHARE CAPITAL**

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2002 - 101) are issued and outstanding. The shares were issued for nominal consideration of \$101.

6. **SASKATCHEWAN TAXES**

Saskatchewan taxes include the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Property taxes	\$ 607	\$ 576
Corporate capital tax	<u>32</u>	<u>25</u>
	<u>\$ 639</u>	<u>\$ 601</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

7. **NET CHANGE IN NON-CASH WORKING CAPITAL**

	<u>2003</u>	<u>2002</u>
	(thousands)	
Intercompany accounts payable	\$ 241	\$ (520)
Accounts receivable	69	(37)
Accounts payable	<u>10</u>	<u>23</u>
	<u>\$ 320</u>	<u>\$ (534)</u>

8. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	<u>2003</u>		<u>2002</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
	(thousands)			
Notes payable to parent	\$ 11,565	\$ 13,044	\$ 11,565	\$ 12,966
Sinking fund equity	167	176	81	85

The fair values of the above instruments were based on the following:

- i. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2003.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts payable, dividend payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 9), the Corporation has seven customers from which it earns approximately one-half of its revenue. The Corporation had a maximum credit exposure to any individual customer of approximately \$140 thousand. There were no credit losses in 2003.

9. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Revenue	<u>\$ 1,777</u>	<u>\$ 1,803</u>
Operating and maintenance expenses	<u>\$ 1,166</u>	<u>\$ 1,049</u>
Interest expense	<u>\$ 857</u>	<u>\$ 860</u>

These items have been recorded at their exchange amounts.

- b. By virtue of the Corporation being a subsidiary of SEI, it is related to various Saskatchewan Crown corporations, departments, agencies, boards and commissions subject to joint control and significant influence by the Government of Saskatchewan.

These transactions were as follows:

	<u>2003</u>		<u>2002</u>
		(thousands)	
Operating expense	\$ 49		\$ 33

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

10. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

BAYHURST GAS LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2003

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
Fax: (306) 757-4753
www.deloitte.ca

Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

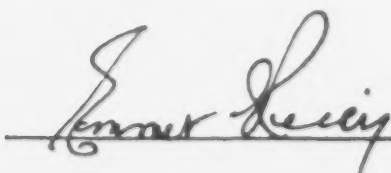
BAYHURST GAS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ 3,386	\$ 3,255
Accounts receivable and accrued revenue		831	910
Intercompany receivable		773	325
Natural gas in storage held for resale		<u>965</u>	<u>-</u>
		5,955	4,490
NATURAL GAS IN STORAGE HELD FOR RESALE		5,554	-
PROPERTY, PLANT AND EQUIPMENT	4	<u>8,687</u>	<u>-</u>
		<u>\$ 20,196</u>	<u>\$ 4,490</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 369	\$ 1
Dividend payable		<u>16,816</u>	<u>3,428</u>
		17,185	3,429
LONG-TERM OBLIGATIONS	5	<u>1,950</u>	<u>-</u>
TOTAL LIABILITIES		<u>19,135</u>	<u>3,429</u>
SHAREHOLDER'S EQUITY			
Share capital	6	1,061	1,061
Retained earnings		<u>-</u>	<u>-</u>
		<u>1,061</u>	<u>1,061</u>
		<u>\$ 20,196</u>	<u>\$ 4,490</u>
COMMITMENTS	7		

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

BAYHURST GAS LIMITED
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

		<u>2003</u>	<u>2002</u>
		(thousands)	
REVENUE			
Net revenue from natural gas sales	3.8	\$ 35,274	\$ -
Royalties		5,870	4,264
Service fee		939	-
Gain on sale of royalty interest		<u>-</u>	<u>375</u>
		<u>42,083</u>	<u>4,639</u>
EXPENSES			
Operating and maintenance		4,621	28
Saskatchewan taxes and royalties		3,460	-
Amortization of property, plant and equipment	4	1,503	-
Interest	9	497	-
Amortization of royalty interest	4	<u>-</u>	<u>26</u>
Total expenses		<u>10,081</u>	<u>54</u>
Net earnings		32,002	4,585
Retained earnings, beginning of year		-	-
Dividend		<u>(32,002)</u>	<u>(4,585)</u>
Retained earnings, end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

BAYHURST GAS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		\$ 32,002	\$ 4,585
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment		1,503	-
Gain on disposal of royalty interest		-	(375)
Increase in long-term obligation		250	-
Amortization of royalty interest		<u>-</u>	<u>26</u>
		33,755	4,236
Net change in non-cash working capital related to operations	10	<u>18,454</u>	<u>2,710</u>
Cash provided by operating activities		<u>52,209</u>	<u>6,946</u>
INVESTING ACTIVITIES			
Acquisition of assets from affiliate	3	(33,226)	-
Additions to property, plant, and equipment		(238)	-
Proceeds from sale of royalty interest		<u>-</u>	<u>375</u>
Cash (used in) provided by investing activities		<u>(33,464)</u>	<u>375</u>
FINANCING ACTIVITIES			
Loan from parent	3	33,226	-
Repayment of loan from parent	3	(33,226)	-
Dividend paid		<u>(18,614)</u>	<u>(4,066)</u>
Cash used in financing activities		<u>(18,614)</u>	<u>(4,066)</u>
INCREASE IN CASH during the year		131	3,255
CASH POSITION , beginning of year		<u>3,255</u>	<u>-</u>
CASH POSITION , end of year		<u>\$ 3,386</u>	<u>\$ 3,255</u>

(See accompanying notes)

BAYHURST GAS LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

Bayhurst Gas Limited (Bayhurst) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy Incorporated (SEI).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at cost. The estimated amount to be sold in 2004 is classified as a current asset, with the remainder classified as non-current.

b. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows:

Transmission and storage	20 per cent to 50 per cent
Compression	3.5 per cent to 50 per cent

c. Revenue Recognition

For natural gas purchased for resale, revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue as recognized in the financial statements are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

d. Hedge accounting

The Corporation uses various derivative financial instruments to hedge its operating exposures to fluctuations in natural gas selling prices. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that the Corporation use financial instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

The Corporation may hedge the sale price of natural gas. The sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments the Corporation may use to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

3. TRANSFER OF ASSETS FROM AN AFFILIATE

Effective January 1, 2003, the Corporation purchased for cash consideration certain natural gas in storage and related assets from an affiliate, TransGas Limited, as follows:

	(thousands)
Property, plant and equipment	\$ 9,952
Natural gas in storage held for resale	<u>24,974</u>
	34,926
Less: long-term obligations (see Note 5)	<u>(1,700)</u>
Net purchase price	<u>\$ 33,226</u>

In 2002 all revenue and expenses related to the assets transferred were included in the financial results of TransGas Limited. For 2003, the related revenue and expenses are reported in these financial statements.

The consideration represented the affiliate's carrying value. A portion of the natural gas in storage held for resale was sold in 2003.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
			(thousands)			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Compression	\$ 5,629	\$ 566	\$ 5,063	\$ -	\$ -	\$ -
Storage	2,355	527	1,828	-	-	-
Transmission	2,049	410	1,639	-	-	-
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	<u>157</u>	<u>-</u>	<u>157</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,699</u>	<u>\$ 8,012</u>	<u>\$ 8,687</u>	<u>\$ 6,509</u>	<u>\$ 6,509</u>	<u>\$ -</u>

The composite rate of amortization was 14.7 per cent during 2003.

5. LONG-TERM OBLIGATIONS

The Corporation has made a provision of \$1,950 thousand for well abandonment and site restoration costs related to the decommissioning of specific natural gas storage and related facilities expected to occur in 2008 for a total cost of \$2,700 thousand. The related expense for 2003 was \$250 thousand.

6. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2002 - 120 shares) are issued and outstanding.

7. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2003		2002	
	Carrying Amount	Fair Value (thousands)	Carrying Amount	Fair Value
Natural gas price hedges owed by Bayhurst	\$ -	\$(1,517)	\$ -	\$ -

The fair values of the natural gas price swaps were based on the relevant index price in effect as at year end.

The carrying values of other financial instruments (cash, accounts receivable and accrued revenue, intercompany accounts receivable, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value.

- b. The Corporation has entered into forward sale agreements to deliver 5.4 petajoules of natural gas during 2004 and 2005.
- c. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 5.4 petajoules committed for sale during 2004 and 2005.
- d. Credit risk management

The Corporation receives monthly royalty revenue from certain natural gas properties. The largest receipts (approximately 79 per cent) are from one non-related company. The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2003.

- e. Letters of Credit

The Corporation has posted a \$20 thousand letter of credit to Saskatchewan Industry and Resources.

8. NET REVENUE FROM NATURAL GAS SALES

Net revenue from natural gas sales consists of the following:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Sales of natural gas	\$ 54,103	\$ -
Cost of natural gas sold	<u>18,829</u>	<u>-</u>
Net revenue from natural gas sales	<u>\$ 35,274</u>	<u>\$ -</u>

Of the \$54,103 thousand in gross revenue from natural gas sales noted above, \$21,658 thousand was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliates carrying value.

In 2002 all revenue and expenses related to the assets transferred (described in note 3) were included in the financial results of TransGas Limited. For 2003, the related revenue and expenses are reported in these financial statements.

9. INTEREST EXPENSE

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of \$490 thousand (2002 – nil).

10. NET CHANGE IN NON-CASH WORKING CAPITAL

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ 79	\$ (345)
Intercompany receivable	(448)	3,055
Natural gas in storage held for resale	18,455	-
Accounts payable	<u>368</u>	<u>-</u>
	<u>\$ 18,454</u>	<u>\$ 2,710</u>

11. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Net revenue from natural gas sales	<u>\$ 1,218</u>	<u>\$ -</u>
Other revenue	<u>\$ 938</u>	<u>\$ -</u>
Operating and maintenance expenses	<u>\$ 4,171</u>	<u>\$ -</u>

These items have been recorded at their exchange amounts.

In 2002 all revenue and expenses related to the assets transferred (described in note 3) were included in the financial results of TransGas Limited. For 2003, the related revenue and expenses are reported in these financial statements.

12. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2003 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

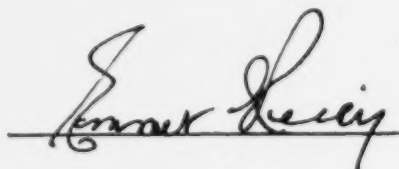
SWAN VALLEY GAS CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable		\$ 371	\$ 281
Intercompany accounts receivable		49	14
Purchase gas variance account	3	<u>79</u>	<u>81</u>
		499	376
PROPERTY, PLANT AND EQUIPMENT	4	<u>1,906</u>	<u>2,086</u>
TOTAL ASSETS		<u>\$ 2,405</u>	<u>\$ 2,462</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ 1,063	\$ 573
Accounts payable		51	40
Intercompany accounts payable		147	201
Current portion of note payable to parent	5	<u>20</u>	<u>20</u>
		1,281	834
NOTE PAYABLE TO PARENT	5	<u>1,981</u>	<u>2,005</u>
TOTAL LIABILITIES		<u>3,262</u>	<u>2,839</u>
SHAREHOLDER'S EQUITY			
Share capital	6	1	1
Deficit		<u>(858)</u>	<u>(378)</u>
		<u>(857)</u>	<u>(377)</u>
		<u>\$ 2,405</u>	<u>\$ 2,462</u>

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SWAN VALLEY GAS CORPORATION
STATEMENT OF LOSS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
REVENUE			
Natural gas sales		\$ 382	\$ 280
Cost of gas sold	3	<u>651</u>	<u>280</u>
Natural gas sales margin		(269)	-
Delivery revenue		<u>595</u>	<u>582</u>
Net revenue		<u>326</u>	<u>582</u>
EXPENSES			
Transportation		323	327
Operating and maintenance		265	258
Amortization	4	76	72
Interest	5	<u>142</u>	<u>139</u>
Total expenses		<u>806</u>	<u>796</u>
Loss		(480)	(214)
Deficit, beginning of year		<u>(378)</u>	<u>(164)</u>
Deficit, end of year		<u>\$ (858)</u>	<u>\$ (378)</u>

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Loss		\$ (480)	\$ (214)
Add (deduct) items not requiring an outlay of cash			
Amortization of property, plant and equipment	4	226	224
Sinking fund earnings	5	(2)	-
Amortization of premium on note payable	5	(2)	(1)
Amortization of capital contributions	4	<u>(150)</u>	<u>(152)</u>
		(408)	(143)
Net change in non-cash working capital related to operations	7	<u>(166)</u>	<u>666</u>
Cash (used in) provided by operating activities		<u>(574)</u>	<u>523</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(23)	(280)
Increase in capital contributions	4	<u>127</u>	<u>178</u>
Cash provided by (used in) investing activities		<u>104</u>	<u>(102)</u>
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness		490	(401)
Sinking fund installment	5	<u>(20)</u>	<u>(20)</u>
Cash provided by (used in) financing activities		<u>470</u>	<u>(421)</u>
INCREASE (DECREASE) IN CASH during year		-	-
CASH, beginning of year		-	-
CASH, end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

Swan Valley Gas Corporation (SVGC) was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

The Corporation, as a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SEI and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometer east of the Manitoba-Saskatchewan border.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

General Plant	5.00
Service Lines and Meters	3.45
Pressure Regulation Stations	3.03
Main Lines	2.50

b. Capital Contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service life of the related asset.

c. Revenue Recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

d. Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

3. PURCHASE GAS VARIANCE ACCOUNT

For rate setting purposes, the Corporation's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Purchase Gas Variance Account (PGVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

The PGVA has accumulated a balance of \$348 thousand to December 31, 2003 consisting of unrecovered transportation costs of \$269 thousand and unrecovered purchased natural gas costs of \$79 thousand.

Due to lower than forecast natural gas sales over the past three years, the Corporation has been unable to recover all of the fixed transport component of its cost of gas sold. There is uncertainty as to whether the \$269 thousand will be recoverable within a reasonable timeframe from the existing customer base. Accordingly, the Corporation has made a provision of \$269 thousand and has reported this amount as cost of gas sold for 2003 with a corresponding reduction to the PGVA balance on the Statement of Financial Position. For rate setting purposes, the PGVA balance of \$348 thousand can be recovered in future rates subject to approval by the MPUB.

The remaining PGVA balance of \$79 thousand as at December 31, 2003 is being recovered from customers through commodity rates implemented June 1, 2003. In accordance with generally accepted accounting principles as they apply to regulated entities, the Corporation has recorded a PGVA receivable of \$79 thousand as at December 31, 2003.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	(thousands)					
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Main lines	\$ 6,374	\$ 443	\$ 5,931	\$ 6,372	\$ 285	\$ 6,087
Service lines and meters	1,243	102	1,141	1,224	59	1,165
Stations	684	55	629	682	34	648
General plant	<u>72</u>	<u>9</u>	<u>63</u>	<u>72</u>	<u>5</u>	<u>67</u>
	<u>\$ 8,373</u>	<u>\$ 609</u>	7,764	<u>\$ 8,350</u>	<u>\$ 383</u>	7,967
Less:						
Unamortized capital contributions			<u>5,858</u>			<u>5,881</u>
			<u>\$ 1,906</u>			<u>\$ 2,086</u>

a. Capital contributions

Capital contributions have been received from federal, provincial and municipal agencies to assist in the funding of the Swan Valley gasification project. In addition, customers are assessed a capital contribution for installation of natural gas service. Capital contributions are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Opening Balance	\$ 5,881	\$ 5,855
Contributions received		
Governments of Canada and Manitoba	118	88
Customers	9	90
Contributions amortized	<u>(150)</u>	<u>(152)</u>
Balance end of year	<u>\$ 5,858</u>	<u>\$ 5,881</u>

b. Amortization

	<u>2003</u>	<u>2002</u>
	(thousands)	
Amortization of property, plant and equipment	\$ 226	\$ 224
Amortization of capital contributions	<u>(150)</u>	<u>(152)</u>
	<u>\$ 76</u>	<u>\$ 72</u>

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2003 (2.7 per cent during 2002).

5. NOTE PAYABLE TO PARENT

	<u>2003</u>		<u>2002</u>	
				(thousands)
<u>Maturity Date</u>	<u>Principal Outstanding</u> (thousands)	<u>Fixed Interest Rate</u> (per cent)	<u>Principal Outstanding</u> (thousands)	<u>Fixed Interest Rate</u> (per cent)
September 5, 2031	\$ 2,000	6.4	\$ 2,000	6.4
Unamortized premium	<u>43</u>		<u>45</u>	
	2,043		2,045	
Less sinking fund equity	<u>(42)</u>		<u>(20)</u>	
	2,001		2,025	
Less due within one year	<u>(20)</u>		<u>(20)</u>	
	<u>\$ 1,981</u>		<u>\$ 2,005</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy Incorporated, SVGC is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are held by SaskEnergy Incorporated.

b. Sinking fund installments

Sinking fund installments due in each of the next five years are as follows:
(thousands)

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 20	\$ 20	\$ 20	\$ 20	\$ 20

c. Interest expense

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on note payable to parent	\$ 128	\$ 128
Interest on bank indebtedness	18	13
Sinking fund earnings	(2)	-
Amortization of premium	<u>(2)</u>	<u>(2)</u>
	<u>\$ 142</u>	<u>\$ 139</u>

Cash interest paid during 2003 on note payable to parent was \$128 thousand (2002 - \$128 thousand).

6. **SHARE CAPITAL**

Authorized share capital consists of an unlimited number of common shares without nominal or par value. One hundred (100) shares (2002 - 100) are issued and outstanding.

7. **NET CHANGE IN NON-CASH WORKING CAPITAL**

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ (90)	\$ 544
Intercompany accounts receivable	(35)	87
Purchase gas variance account	2	(87)
Accounts payable	11	3
Intercompany accounts payable	<u>(54)</u>	<u>119</u>
	<u>\$ (166)</u>	<u>\$ 666</u>

8. **FINANCIAL INSTRUMENTS**

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	<u>2003</u>		<u>2002</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
	(thousands)			
Note payable to parent	\$ 2,043	\$ 2,224	\$ 2,045	\$ 2,170
Sinking fund equity	42	44	20	21

The fair values of the above financial instruments are based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts receivable, intercompany accounts payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. During 2003, the Corporation had one non-related customer from which it earned approximately 50 per cent of its revenue (2002 – 58 per cent). There were no credit losses in 2003.

9. **RELATED PARTY TRANSACTIONS**

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Natural gas commodity purchases	<u>\$ 664</u>	<u>\$ 445</u>
Transportation expense	<u>\$ 323</u>	<u>\$ 327</u>
Interest expense	<u>\$ 128</u>	<u>\$ 128</u>
Operating and maintenance expenses	<u>\$ 64</u>	<u>\$ 80</u>

10. **COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2003 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKATCHEWAN FIRST CALL CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ -	\$ 1
Accounts receivable		2	-
Intercompany accounts receivable		7	-
Prepaid expenses		<u>13</u>	<u>-</u>
		22	1
PROPERTY, PLANT AND EQUIPMENT	3	<u>78</u>	<u>97</u>
		<u>\$ 100</u>	<u>\$ 98</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ 145	\$ -
Accounts payable		4	-
Intercompany accounts payable		<u>27</u>	<u>97</u>
		176	97
SHAREHOLDER'S EQUITY			
Share capital	4	1	1
Deficit		<u>(77)</u>	<u>-</u>
		<u>(76)</u>	<u>1</u>
		<u>\$ 100</u>	<u>\$ 98</u>

(See accompanying notes)

On behalf of the Board:

M. Simon, Director

James Leung, Director

SASKATCHEWAN FIRST CALL CORPORATION
STATEMENT OF LOSS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)
		Note 1
REVENUE		
Location services		\$ 281
EXPENSES		
Operating and maintenance		336
Amortization of property, plant and equipment	3	20
Interest	5	<u>2</u>
Total expenses		<u>358</u>
Loss		(77)
Retained earnings, beginning of year		<u>-</u>
Deficit, end of year		\$ (77)

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u> Note 1
OPERATING ACTIVITIES			
Loss		\$ (77)	\$ -
Add item not requiring an outlay of cash			
Amortization of property, plant and equipment	3	20	-
		(57)	-
Net change in non-cash working capital related to operations	6	(88)	97
Cash (used in) provided by operating activities		(145)	97
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(1)	(97)
Cash used in investing activities		(1)	(97)
FINANCING ACTIVITIES			
Increase in bank indebtedness		145	-
Share capital issued		-	1
Cash provided by financing activities		145	1
INCREASE (DECREASE) IN CASH, during year		(1)	1
CASH, beginning of year		1	-
CASH, end of year		\$ -	\$ 1

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

Saskatchewan First Call Corporation (First Call) was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. First Call is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore First Call is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation has established a database for the location of certain oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, First Call provides this service whereby landowners and other stakeholders may contact First Call to determine the location of pipeline facilities.

The Corporation will recover its costs of operation from the pipeline companies participating in this locating service. First Call commenced operations on January 1, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer Software	20.0
-------------------	------

3. **PROPERTY, PLANT AND EQUIPMENT**

	<u>2003</u>			<u>2002</u>		
	(thousands)					
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer software	<u>\$ 98</u>	<u>\$ 20</u>	<u>\$ 78</u>	<u>\$ 97</u>	<u>\$ -</u>	<u>\$ 97</u>

The composite rate of amortization was 20 per cent during 2003.

4. **SHARE CAPITAL**

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

5. **INTEREST EXPENSE**

Interest expense is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on bank indebtedness	<u>\$ 2</u>	<u>\$ -</u>

6. **NET CHANGE IN NON-CASH WORKING CAPITAL**

The net change in non-cash working capital related to operations is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ (2)	\$ -
Intercompany accounts receivable	(7)	-
Prepaid expenses	(13)	-
Accounts payable	4	-
Intercompany accounts payable	<u>(70)</u>	<u>97</u>
	<u>\$ (88)</u>	<u>\$ 97</u>

7. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Related party transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Location services revenue	<u>\$ 267</u>	<u>\$ -</u>
Operating and maintenance expenses	<u>\$ 199</u>	<u>\$ -</u>

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2003 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

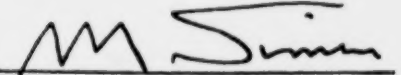
Regina, Saskatchewan
February 6, 2004

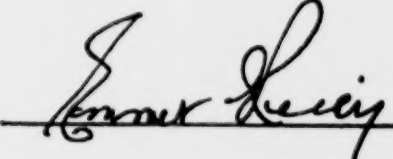
SASKENERGY INTERNATIONAL INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ 98	\$ -
Intercompany accounts receivable		-	94
Accounts receivable		<u>21</u>	<u>82</u>
		119	176
LONG-TERM INVESTMENTS	3	<u>23,768</u>	<u>15,832</u>
		<u>\$ 23,887</u>	<u>\$ 16,008</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		\$ -	\$ 4,410
Accounts payable		103	133
Intercompany accounts payable		<u>68</u>	<u>-</u>
TOTAL LIABILITIES		<u>171</u>	<u>4,543</u>
SHAREHOLDER'S EQUITY			
Share capital	4	29,384	16,321
Foreign currency translation adjustment		(1,084)	(740)
Deficit		<u>(4,584)</u>	<u>(4,116)</u>
		<u>23,716</u>	<u>11,465</u>
		<u>\$ 23,887</u>	<u>\$ 16,008</u>
COMMITMENTS	9		

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SASKENERGY INTERNATIONAL INCORPORATED
CONSOLIDATED STATEMENT OF LOSS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
REVENUE			
Consulting services		\$ <u>43</u>	\$ <u>31</u>
EXPENSES			
Operating		614	787
Interest	5	<u>99</u>	<u>98</u>
Total expenses		<u>713</u>	<u>885</u>
Loss before the following		(670)	(854)
Share of equity investments' net earnings (loss)		<u>202</u>	<u>(14)</u>
Loss		(468)	(868)
Deficit, beginning of year		<u>(4,116)</u>	<u>(3,248)</u>
Deficit, end of year		<u>\$ (4,584)</u>	<u>\$ (4,116)</u>

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Loss		\$ (468)	\$ (868)
Add item not requiring an outlay of cash			
Share of equity investments' (net earnings) loss		(202)	14
Net change in non-cash working capital related to operations	6	<u>193</u>	<u>(201)</u>
Cash used in operating activities		<u>(477)</u>	<u>(1,055)</u>
INVESTING ACTIVITIES			
Increase in long-term investments		<u>(8,078)</u>	<u>(3,754)</u>
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness		(4,410)	1,091
Increase in share capital		<u>13,063</u>	<u>3,718</u>
Cash provided by financing activities		<u>8,653</u>	<u>4,809</u>
INCREASE IN CASH, during year		98	-
CASH, beginning of year		<u>-</u>	<u>-</u>
CASH, end of year		<u>\$ 98</u>	<u>\$ -</u>

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy International Incorporated (SEII), formerly Many Islands Natural Gas (Canada) Limited, was incorporated under *The Canada Business Corporations Act* on February 17, 1981. SEII commenced international operations on March 1, 1996. SEII is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

As the Corporation is a wholly owned subsidiary of a Saskatchewan provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, and the 100 per cent interest of SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. in SaskEnergy Chilean Holdings Limitada (SCHL), a Chilean limited partnership.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

d. Employees' future benefits

The Corporation provides a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*.

Under the plan the Corporation's obligations are limited to making regular payments to the plan to match contributions made by the employees for current services. These contributions are charged against income.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

e. Revenue recognition

Revenue for consulting services is earned as services are performed.

3. LONG-TERM INVESTMENTS

Long-term investments are as follows:

	2003		2002	
	Per cent Ownership	Amount (thousands)	Per cent Ownership	Amount (thousands)
Equity Investment				
Gas Sur S.A.	30.0	\$ 13,214	30.0	\$ 11,986
Igasamex USA Ltd.	40.1	<u>10,554</u>	12.4	<u>3,846</u>
Total long-term investments		<u>\$ 23,768</u>		<u>\$ 15,832</u>

a. Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, the Corporation contributed incremental equity to Gas Sur S.A. of \$1,040 thousand. The Corporation's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder contributed its 70 per cent proportionate share. The total amount invested was \$13,784 thousand as at December 31, 2003 (2002 - \$12,740 thousand).

The Corporation's share of the foreign currency translation adjustment for 2003 resulted in a \$66 thousand increase in the balance of the investment in Gas Sur S.A. (2002 – \$740 thousand reduction). The Corporation's 30 per cent share of Gas Sur S.A.'s 2003 net earnings was \$118 thousand (2002 – \$14 thousand loss).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand and is not being amortized.

b. **Igasamex USA Ltd.**

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd., a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

On June 30, 2003, under authority of Order-in-Council 879/2001, the Corporation increased its equity interest in Igasamex USA Ltd. to 40.1 per cent. The total amount invested was \$10,880 thousand as at December 31, 2003 (2002 – \$3,846 thousand).

In 2002, the 12.4 per cent equity interest in Igasamex USA Ltd. was recorded using the cost basis of accounting. On June 30, 2003, the equity ownership in Igasamex USA Ltd. was increased to 40.1 per cent and as a result, the investment was accounted for by the equity basis of accounting from that date.

The Corporation's share of the foreign currency translation adjustment for 2003 resulted in a \$410 thousand reduction in the balance of the investment in Igasamex USA Ltd. The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2003 net earnings was \$84 thousand.

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,240 thousand and is not being amortized.

The equity interest is held through general partnership and limited partnership units.

4. **SHARE CAPITAL**

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2003</u> (thousands)	<u>2002</u>
Share capital, beginning of year	1,632,055.6	\$ 16,321	\$ 12,603
Issued during the year for cash	<u>1,306,376.4</u>	<u>13,063</u>	<u>3,718</u>
Share capital, end of year	<u>2,938,432.0</u>	<u>\$ 29,384</u>	<u>\$ 16,321</u>

5. INTEREST EXPENSE

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of \$138 thousand (2002 - \$66 thousand).

6. NET CHANGE IN NON-CASH WORKING CAPITAL

	<u>2003</u>	<u>2002</u>
	(thousands)	
Intercompany accounts receivable	\$ 94	\$ (94)
Intercompany accounts payable	68	(74)
Accounts receivable	61	(58)
Accounts payable	<u>(30)</u>	<u>25</u>
	<u>\$ 193</u>	<u>\$ (201)</u>

7. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable) approximate fair value.

8. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and its subsidiaries were as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Corporate expenses	\$ 98	\$ 97
Interest expense	<u>\$ 99</u>	<u>\$ 98</u>

These items have been recorded at their exchange amounts.

9. COMMITMENTS

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Limited, has posted a \$3,006 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

10. EMPLOYEES' FUTURE BENEFITS

a. Pension plans

All employees of the Corporation are members of defined contribution pension plan. During the year, the Corporation contributed \$23 thousand (2002 - \$19 thousand) on behalf of employees for current services.

SASKENERGY CHILEAN HOLDINGS I LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

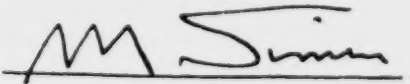
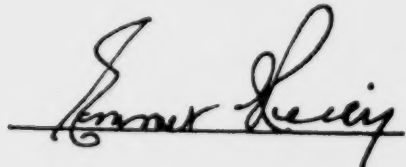
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKENERGY CHILEAN HOLDINGS I LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
ASSETS			
CASH		\$ 2	\$ 2
LONG-TERM INVESTMENT	3	<u>13,072</u>	<u>11,848</u>
		<u>\$ 13,074</u>	<u>\$ 11,850</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
INTERCOMPANY ACCOUNTS PAYABLE		<u>\$ 2</u>	<u>\$ 2</u>
MINORITY INTEREST	4	<u>13</u>	<u>12</u>
SHAREHOLDER'S EQUITY			
Share capital	5	13,629	12,590
Foreign currency translation adjustment	3	(674)	(740)
Retained earnings (deficit)		<u>104</u>	<u>(14)</u>
		<u>13,059</u>	<u>11,836</u>
		<u>\$ 13,074</u>	<u>\$ 11,850</u>
COMMITMENTS	6		
(See accompanying notes)			
On behalf of the Board:			
	Director		Director

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
Share of equity investment net earnings (loss)	3	\$ <u>118</u>	\$ <u>(14)</u>
Net earnings (loss)		118	(14)
Retained earnings (deficit), beginning of year		<u>(14)</u>	<u>-</u>
Retained earnings (deficit), end of year		<u>\$ 104</u>	<u>\$ (14)</u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings (loss)		\$ 118	\$ (14)
Add item not requiring an outlay of cash			
Share of equity investment (net earnings) loss		<u>(118)</u>	<u>14</u>
Cash provided by operating activities		<u>-</u>	<u>-</u>
INVESTING ACTIVITIES			
Increase in long-term investment		<u>(1,040)</u>	<u>-</u>
FINANCING ACTIVITIES			
Minority interest	4	1	-
Proceeds from share issue	5	<u>1,039</u>	<u>-</u>
Cash provided by financing activities		<u>1,040</u>	<u>-</u>
CHANGE IN CASH during year		-	-
CASH POSITION , beginning of year		<u>2</u>	<u>2</u>
CASH POSITION , end of year		<u>\$ 2</u>	<u>\$ 2</u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings I Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest). The 0.1 per cent minority interest in SaskEnergy Chilean Holdings Limitada is held by SaskEnergy Chilean Holdings I Ltd. (an affiliate).

a. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation contributed incremental equity to Gas Sur S.A. of \$1,040 thousand. The Corporation's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder also contributed its 70 per cent proportionate share. The total amount invested was \$13,642 thousand as at December 31, 2003 (2002 - \$12,602 thousand).

As at December 31, the 30 per cent equity investment in Gas Sur S.A. was as follows:

	<u>2003</u> (thousands)	<u>2002</u>
Equity investment, beginning of year	\$ 11,848	\$ 12,602
Increase in investment during the year	1,040	-
Share of net earnings (loss)	118	(14)
Share of foreign currency translation adjustment	<u>66</u>	<u>(740)</u>
Equity investment, end of year	<u>\$ 13,072</u>	<u>\$ 11,848</u>

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand and is not being amortized.

4. MINORITY INTEREST

The Corporation has a 99.9 per cent ownership interest in SaskEnergy Chilean Holdings Limitada. SaskEnergy Chilean Holdings II Ltd. (an affiliate) owns the remaining 0.1 per cent interest. Therefore, the minority interest is represented by SaskEnergy Chilean Holdings II Ltd.'s 0.1 per cent share interest in SaskEnergy Chilean Holdings Limitada.

As at December 31, the 0.1 per cent share minority interest was as follows:

	<u>2003</u> (thousands)	<u>2002</u>
Minority interest, beginning of year	\$ 12	\$ 12
Increase in investment during the year	<u>1</u>	<u>-</u>
Minority interest, end of year	<u>\$ 13</u>	<u>\$ 12</u>

5. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
Share capital, beginning of year	1,258,923.5	\$ 12,590	\$ 12,590
Issued during the year	<u>103,944.4</u>	<u>1,039</u>	<u>-</u>
Share capital, end of year	<u>1,362,867.9</u>	<u>\$ 13,629</u>	<u>\$ 12,590</u>

6. COMMITMENTS

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars (USD).

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2003 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKENERGY CHILEAN HOLDINGS II LTD.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
LONG-TERM INVESTMENT	3	\$ <u>13</u>	\$ <u>12</u>
SHAREHOLDER'S EQUITY			
SHARE CAPITAL	4	\$ <u>13</u>	\$ <u>12</u>

(See accompanying notes)

On behalf of the Board:

M. Simon, Director

Enner Leizaola, Director

SASKENERGY CHILEAN HOLDINGS II LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	<u>2003</u> (thousands)	<u>2002</u>
INVESTING ACTIVITIES		
Increase in long-term investment	<u>(1)</u>	<u>-</u>
FINANCING ACTIVITIES		
Proceeds from share issue	<u>\$ 1</u>	<u>\$ -</u>
CHANGE IN CASH during year	<u>-</u>	<u>-</u>
CASH POSITION , beginning of year	<u>-</u>	<u>-</u>
CASH POSITION , end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS II LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings II Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue or expenses, and accordingly a statement of earnings is not included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada (SCHL) using the cost method (0.1 per cent ownership interest as at December 31, 2003 and December 31, 2002).

3. LONG-TERM INVESTMENT

The Corporation holds a 0.1 per cent interest in SCHL with SaskEnergy Chilean Holdings I Ltd. holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SCHL is \$13.6 thousand as at December 31, 2003 (2002 - \$12.6 thousand).

Under authority of Order-in-Council 735/1998 dated December 9, 1998, SCHL purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, SCHL increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, SCHL contributed incremental equity to Gas Sur S.A. of \$1,040 thousand. SCHL's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder also contributed its 70 per cent proportionate share. The total amount invested was \$13,642 thousand as at December 31, 2003 (2002 - \$12,602 thousand).

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2003</u>	<u>2002</u>
		(thousands)	
Share capital, beginning of year	1,261.2	\$ 12	\$ 12
Issued during the year	<u>104.0</u>	<u>1</u>	<u>-</u>
Share capital, end of year	<u>1,365.2</u>	<u>\$ 13</u>	<u>\$ 12</u>

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
LONG-TERM INVESTMENT	3	\$ <u>13,072</u>	\$ <u>11,848</u>
PARTNERSHIP EQUITY			
PARTNERSHIP CONTRIBUTIONS	4	13,642	12,602
RETAINED EARNINGS (DEFICIT)	4	104	(14)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	4	<u>(674)</u>	<u>(740)</u>
		\$ <u>13,072</u>	\$ <u>11,848</u>
COMMITMENTS	5		

(See accompanying notes)

On behalf of the Board:

M. Simon, Director

Enner Leizaola, Director

SASKENERGY CHILEAN HOLDINGS LIMITADA
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
Share of equity investment net earnings (loss)	3	\$ 118	\$ (14)
Net earnings (loss)		118	(14)
Retained earnings (deficit), beginning of year		(14)	-
Retained earnings (deficit), end of year		\$ 104	\$ (14)

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	<u>2003</u>	<u>2002</u>
	(thousands)	
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 118	\$ (14)
Add item not requiring an outlay of cash		
Share of equity investment (net earnings) loss	<u>(118)</u>	<u>14</u>
Cash provided by operating activities	<u>-</u>	<u>-</u>
INVESTING ACTIVITIES		
Increase in long-term investment	<u>(1,040)</u>	<u>-</u>
FINANCING ACTIVITIES		
Equity contributions from partners	<u>1,040</u>	<u>-</u>
CHANGE IN CASH during year	<u>-</u>	<u>-</u>
CASH POSITION , beginning of year	<u>-</u>	<u>-</u>
CASH POSITION , end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE LIMITED PARTNERSHIP

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership. The amounts of net earnings or loss of the partnership for the fiscal period was attributed to the partners and included in their income for taxation purposes.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

b. Foreign currency translation adjustment

The limited partnership's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos to Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected as a foreign currency translation adjustment in Partnership Equity.

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the limited partnership purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the limited partnership increased its equity interest in Gas Sur S.A. to 30 per cent.

On March 12, 2003, under authority of Order-in-Council 735/1998, the limited partnership contributed incremental equity to Gas Sur S.A. of \$1,040 thousand. The limited partnership's equity interest in Gas Sur S.A. was maintained at 30 per cent as the other shareholder also contributed its 70 per cent proportionate share. The total amount invested was \$13,642 thousand as at December 31, 2003 (2002 - \$12,602 thousand).

As at December 31, the 30 per cent equity investment in Gas Sur S.A. was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Equity investment, beginning of year	\$ 11,848	\$ 12,602
Increase in investment during the year	1,040	-
Share of net earnings (loss)	118	(14)
Share of foreign currency translation adjustment	<u>66</u>	<u>(740)</u>
Equity investment, end of year	<u>\$ 13,072</u>	<u>\$ 11,848</u>

The cost of the investment exceeds the limited partnership's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand and is not being amortized.

4. PARTNERSHIP EQUITY

	<u>2003</u>			<u>2002</u>
	<u>SaskEnergy Chilean Holdings I Ltd. 99.9 per cent</u>	<u>SaskEnergy Chilean Holdings II Ltd. 0.1 per cent</u>	<u>Total</u>	
	(thousands)			
Partnership equity, beginning of year	\$ 11,836	\$ 12	\$11,848	\$ 12,602
Net earnings (loss)	118	-	118	(14)
Foreign currency translation adjustment	66	-	66	(740)
Equity contributions	<u>1,039</u>	<u>1</u>	<u>1,040</u>	<u>-</u>
Partnership equity, end of year	<u>\$ 13,059</u>	<u>\$ 13</u>	<u>\$13,072</u>	<u>\$11,848</u>

5. COMMITMENTS

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars (USD).

SASKENERGY MEXICAN HOLDINGS LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2003 and the statement of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2004

SASKENERGY MEXICAN HOLDINGS LTD.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
INTERCOMPANY ACCOUNTS RECEIVABLE		\$ -	\$ 8
LONG-TERM INVESTMENT	3	<u>10,415</u>	<u>3,718</u>
		<u>\$ 10,415</u>	<u>\$ 3,726</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
BANK INDEBTEDNESS		\$ -	\$ 8
SHAREHOLDER'S EQUITY			
Share capital	4	10,741	3,718
Foreign currency translation adjustment		(410)	-
Retained earnings		<u>84</u>	<u>-</u>
		<u>10,415</u>	<u>3,718</u>
		<u>\$ 10,415</u>	<u>\$ 3,726</u>
COMMITMENTS	5		

(See accompanying notes)

On behalf of the Board:

M. Simon, Director

Ernest Leung, Director

SASKENERGY MEXICAN HOLDINGS LTD.
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
Share of equity investment net earnings	3	\$ <u>84</u>	\$ <u>-</u>
Net earnings		84	-
Retained earnings, beginning of year		<u>-</u>	<u>-</u>
Retained earnings, end of year		\$ <u><u>84</u></u>	\$ <u><u>-</u></u>

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
OPERATING ACTIVITIES			
Net earnings		\$ 84	\$ -
Add item not requiring an outlay of cash			
Share of equity investment net earnings		<u>(84)</u>	<u>-</u>
Cash provided by operating activities		<u>-</u>	<u>-</u>
INVESTING ACTIVITIES			
Increase in long-term investment		<u>(7,023)</u>	<u>(3,718)</u>
FINANCING ACTIVITIES			
Proceeds from share issue	4	7,023	3,718
Decrease (increase) in intercompany			
accounts receivable		8	(8)
Increase (decrease) in bank indebtedness		<u>(8)</u>	<u>8</u>
Cash provided by financing activities		<u>7,023</u>	<u>3,718</u>
CHANGE IN CASH during year		-	-
CASH , beginning of year		<u>-</u>	<u>-</u>
CASH , end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Mexican Holdings Ltd. (SEMHL) was incorporated on November 15, 2001 under *The Canada Business Corporations Act*. SEMHL is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore SEMHL is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from United States dollars into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the United States dollar and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 879/2001 dated December 5, 2001, the Corporation purchased a 12.4 per cent equity interest in Igasamex USA Ltd. a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

On June 30, 2003, under authority of Order-in-Council 879/2001, the Corporation increased its equity interest in Igasamex USA Ltd. to 40.1 per cent. The total amount invested was \$10,741 thousand as at December 31, 2003 (2002 – \$3,718 thousand).

In 2002, the 12.4 per cent equity interest in Igasamex USA Ltd. was recorded using the cost basis of accounting. On June 30, 2003, the equity ownership in Igasamex USA Ltd. was increased to 40.1 per cent and as a result, the investment was accounted for on the equity basis of accounting from that date.

As at December 31, the equity investment in Igasamex USA Ltd. was as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Per cent Ownership</u>	<u>Amount (thousands)</u>	<u>Per cent Ownership</u>	<u>Amount (thousands)</u>
Equity investment, beginning of year	12.4	\$ 3,718	12.4	\$ 3,718
Increase in investment during the year	27.7	7,023	-	-
Share of net earnings		84	-	-
Share of foreign currency translation adjustment		(410)	-	-
Equity investment, end of year	<u>40.1</u>	<u>\$ 10,415</u>	<u>12.4</u>	<u>\$ 3,718</u>

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,240 thousand and is not being amortized.

The equity interest is held through general partnership and limited partnership units.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2003</u> (thousands)	<u>2002</u> (thousands)
Share capital, beginning of year	371,772.9	\$ 3,718	\$ -
Issued during the year for cash	<u>702,328.0</u>	<u>7,023</u>	<u>3,718</u>
Share capital, end of year	<u>1,074,100.9</u>	<u>\$ 10,741</u>	<u>\$ 3,718</u>

5. COMMITMENTS

SaskEnergy Mexican Holdings Limited, has posted a \$3,006 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit is used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2003 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial consolidated statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

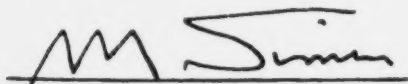
Regina, Saskatchewan
February 6, 2004

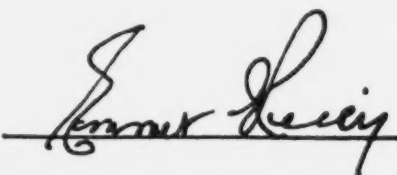
SASKENERGY NOVA SCOTIA HOLDINGS LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u>
ASSETS			
CURRENT ASSETS			
Cash		\$ 355	\$ 1
Accounts receivable		311	-
Inventories of supplies		231	-
Prepaid expenses		<u>27</u>	<u>-</u>
		924	1
PROPERTY, PLANT AND EQUIPMENT	4	4,565	-
REGULATORY RECEIVABLE	5	122	-
DEFERRED CHARGES	6	<u>44</u>	<u>-</u>
		<u>\$ 5,655</u>	<u>\$ 1</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 868	\$ -
Intercompany accounts payable		<u>128</u>	<u>-</u>
		996	
LONG-TERM DEBT	7	<u>2,480</u>	<u>-</u>
		<u>3,476</u>	<u>-</u>
SHAREHOLDER'S EQUITY			
Share capital	9	2,029	1
Retained earnings		<u>150</u>	<u>-</u>
		<u>2,179</u>	<u>1</u>
		<u>\$ 5,655</u>	<u>\$ 1</u>

(See accompanying notes)

On behalf of the Board:

 , Director

 , Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u> Note 1
REVENUE			
Revenue deficiency accrual	5	\$ 122	\$ -
Allowance for funds used during construction		<u>88</u>	<u>-</u>
		<u>210</u>	<u>-</u>
EXPENSES			
Operating and maintenance		911	-
Less:			
Capitalized expenses		<u>907</u>	<u>-</u>
		4	-
Interest	8	45	-
Corporation capital tax		<u>11</u>	<u>-</u>
Net expenses		<u>60</u>	<u>-</u>
Net earnings		150	-
Retained earnings, beginning of period		<u>-</u>	<u>-</u>
Retained earnings, end of period		<u>\$ 150</u>	<u>\$ -</u>

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

	<u>Note</u>	<u>2003</u> (thousands)	<u>2002</u> Note 1
OPERATING ACTIVITIES			
Net earnings		\$ 150	\$ -
Deduct items not requiring an outlay of cash			
Increase in regulatory receivable	5	(122)	-
		28	-
Net change in non-cash working capital related to operations	11	427	-
Cash provided by operating activities		455	-
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(4,565)	-
Increase in deferred charges		(44)	-
Cash used in investing activities		(4,609)	-
FINANCING ACTIVITIES			
Proceeds from long-term debt		2,480	-
Proceeds from share capital issue		2,028	1
Cash provided by financing activities		4,508	1
INCREASE IN CASH, during year		354	1
CASH, beginning of year		1	-
CASH, end of year		<u>\$ 355</u>	<u>\$ 1</u>

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

SaskEnergy Nova Scotia Holdings Ltd. was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore the Corporation is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited as at December 31, 2003.

b. Regulation

The business activities of Heritage Gas Limited are regulated by the Nova Scotia Utility and Review Board (NSUARB).

The Corporation follows generally accepted accounting principles in the utility industry and reflect the policies of the NSUARB. The NSUARB may give direction respecting specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include, but are not limited to, the sales and distribution rates to be charged for natural gas service and approval and recovery of costs for construction and operations.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

On retirement of depreciable assets, accumulated depreciation is charged with the cost of the retired unit, disposal and site restoration costs less salvage.

Amortization of property, plant and equipment is calculated on a straight-line basis utilizing a fixed rate applied to the previous year closing balance. Amortization rates will be approved by the NSUARB.

e. Revenue recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, will be included in revenue.

During the first five years of operation, the weather-normalized under or over recovery of the annual revenue requirement will be accumulated in a delivery revenue deficiency account and will be recovered from or refunded to customers through adjustments to future rates. Establishment of a revenue deficiency amount is in accordance with generally accepted principles as they apply to regulated entities. This account requires NSUARB approval.

f. Gas cost variance account

A Gas Cost Variance Account (GCVA) is used as a mechanism to ensure that Heritage Gas Limited neither profits from nor incurs a loss on the sale of natural gas commodity. Heritage Gas Limited will request approval for the use of a GCVA during 2004. Establishment of a GCVA is in accordance with generally accepted accounting principles as they apply to regulated entities.

g. Income and other taxes

Heritage Gas Limited is subject to payment of corporate income taxes under the laws of Canada. Heritage Gas Limited is a rate-regulated enterprise and is following the taxes payable method of accounting for income taxes. No future income taxes are recognized in the financial statements.

Heritage Gas Limited is subject to Corporation Capital Tax assessed under *The Nova Scotia Income Tax Act of the Province of Nova Scotia*.

h. Allowance for funds used during construction

Heritage Gas Limited capitalizes an imputed carrying cost on assets under construction. This rate is subject to NSUARB review. The amount capitalized is disclosed on the income statement as allowance for funds used during construction. The recognition of an allowance for funds used during construction is in accordance with generally accepted accounting principles as they apply to regulated entities.

3. **HERITAGE GAS LIMITED**

Under authority of Order in Council 666/2002 dated September 10, 2002, the Corporation purchased a 50.1 per cent equity interest in Heritage Gas Limited. On August 16, 2002, Heritage Gas Limited applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas Limited the franchise to distribute natural gas to six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas Limited accepted as of June 3, 2003. The franchise term is 25 years. Since the date of franchise acceptance, Heritage Gas Limited has acquired and constructed gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003.

Interim approval of a Schedule of Rates, Tolls and Charges was issued by the NSUARB on December 19, 2003. Heritage Gas Limited activated its natural gas distribution system December 20, 2003. Sales during the period to year end were nominal and therefore operations will be reflected as of January 1, 2004.

These financial statements reflect the basis upon which Heritage Gas Limited intends to seek regulatory approval from the NSUARB. In early 2004, Heritage Gas Limited will file a full Tolls and Tariffs application for test years 2004 to 2008.

The NSUARB has approved for Heritage Gas Limited, a cost of long-term debt of 8.75 per cent and a rate of return on equity of 13 per cent. The Tolls and Tariffs application will include the details for the operation of a delivery revenue deficiency account and a gas cost variance account. Adoption of a delivery revenue deficiency account has been applied in these financial statements.

Decisions of the NSUARB pursuant to the 2004 Tolls and Tariffs hearing may result in modifications to regulatory account assumptions used in preparation of these financial statements. Any adjustments required as a result of these decisions will be reflected in the 2004 financial statements.

Heritage Gas Limited is currently developing a natural gas distribution system within the franchise area. For the year 2004, system expansion is focused in the Dartmouth area of the Halifax Regional Municipality. Over the 2004 to 2008 test year period, capital expenditures for facilities are projected to total \$125,000 thousand.

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	(thousands)					
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Franchise acquisition	\$ 1,668	\$ -	\$ 1,668	\$ -	\$ -	\$ -
Mains and services	2,395	-	2,395	-	-	-
Regulator stations	337	-	337	-	-	-
Metering	7	-	7	-	-	-
Computer systems	19	-	19	-	-	-
Vehicles, equipment	45	-	45	-	-	-
Tools, buildings and furniture	94	-	94	-	-	-
	<u>\$ 4,565</u>	<u>\$ -</u>	<u>\$ 4,565</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Franchise acquisition costs represent payments made by Heritage Gas Limited to reimburse shareholders for costs incurred to acquire the franchise.

In accordance with generally accepted accounting principles as they apply to regulated entities, the Corporation has recorded \$88 thousand as an allowance for funds used during construction. This amount includes a return on equity amount of \$12 thousand.

5. REGULATORY RECEIVABLE

Heritage Gas Limited proposes to establish delivery service rates to earn its approved rate of return over an initial five year period. Differences in delivery revenue realized from customers compared to that approved by the NSUARB is accrued as a deficiency to be recovered from customers in the future. This proposal is subject to NSUARB approval.

The regulatory receivable includes an accrual of the revenue deficiency based on the rate base employed over the period June 3 to December 31, 2003. The return on rate base is calculated using Heritage Gas Limited's weighted average cost of capital as approved by the NSUARB.

In accordance with generally accepted accounting principles as they apply to regulated entities, the Corporation has recorded revenue and a regulatory receivable of \$122 thousand respectively.

6. DEFERRED CHARGES

Deferred charges include third party costs incurred by Heritage Gas Limited related to regulatory proceedings. These costs will be amortized on a straight-line basis over a five-year period commencing in 2004 subject to the NSUARB approval.

7. **LONG-TERM DEBT**

	<u>2003</u>		<u>2002</u>	
	(thousands)			
	<u>Principal Outstanding</u> (thousands)	<u>Fixed Interest Rate</u> (per cent)	<u>Principal Outstanding</u> (thousands)	<u>Fixed Interest Rate</u> (per cent)
Note payable to parent	<u>\$ 2,480</u>	5.25	<u>\$ -</u>	-

8. **INTEREST EXPENSE**

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest on long-term debt	\$ 47	\$ -
Interest income on cash balance	<u>(2)</u>	<u>-</u>
	<u>\$ 45</u>	<u>\$ -</u>

There were no cash interest payments during the year.

9. **SHARE CAPITAL**

Authorized share capital consists of an unlimited number of class A voting common shares without nominal or par value. Two million twenty-nine thousand fifty one (2,029,051) shares (2002 – 502) are issued and outstanding.

10. **FINANCIAL INSTRUMENTS**

The fair value of the Corporation's financial instruments are listed below:

	<u>2003</u>		<u>2002</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(thousands)			
Long-term debt	\$ 2,480	\$ 2,480	\$ -	\$ -

The carrying values of other financial instruments (accounts receivable, accounts payable and intercompany accounts payable) approximate fair value.

11. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Accounts receivable	\$ (311)	\$ -
Inventories of supplies	(231)	-
Prepaid expenses	(27)	-
Accounts payable	868	-
Intercompany accounts payable	<u>128</u>	<u>-</u>
	<u>\$ 427</u>	<u>\$ -</u>

12. RELATED PARTY TRANSACTIONS

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and other shareholders of Heritage Gas Limited, and amounts outstanding at year end, are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Capitalized expenses	<u>\$ 227</u>	<u>\$ -</u>
Interest expense on note payable to parent	<u>\$ 47</u>	<u>\$ -</u>
Accounts payable	<u>\$ 116</u>	<u>\$ -</u>
Intercompany accounts payable	<u>\$ 128</u>	<u>\$ -</u>

13. JOINT VENTURE INTEREST

The Corporation's proportionate interest in the Heritage Gas Limited joint venture is as follows:

a. Consolidated statement of financial position

	<u>2003</u>	<u>2002</u>
	(thousands)	
Current assets	\$ 845	\$ -
Property, plant and equipment	4,565	-
Regulatory receivable	122	-
Deferred charges	44	-
Current liabilities	<u>(945)</u>	<u>-</u>
Net investment	<u>\$ 4,631</u>	<u>\$ -</u>

b. Consolidated statement of earnings

	<u>2003</u>	<u>2002</u>
	(thousands)	
Revenue	\$ 210	\$ -
Net expenses	<u>(9)</u>	<u>-</u>
Net earnings	<u>\$ 201</u>	<u>\$ -</u>

c. Consolidated statement of cash flows

	<u>2003</u>	<u>2002</u>
	(thousands)	
Operating activities	\$ 376	\$ -
Investing activities	<u>(4,609)</u>	<u>-</u>
Decrease in cash	<u>\$ (4,233)</u>	<u>\$ -</u>

HERITAGE GAS LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2003

Auditors' Report

To the Shareholders of Heritage Gas Limited

We have audited the statement of financial position of Heritage Gas Limited as at December 31, 2003 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Heritage Gas Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Heritage Gas Limited as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Halifax, Nova Scotia
February 6, 2004

HERITAGE GAS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31
(thousands)

	<u>Note</u>	<u>2003</u>	<u>2002</u>
			Note 1
ASSETS			
CURRENT ASSETS			
Cash		\$ 552	\$ 1
Accounts receivable		620	-
Inventories of supplies		460	-
Prepaid expenses		<u>55</u>	<u>-</u>
		1,687	1
PROPERTY, PLANT AND EQUIPMENT	3	9,114	-
REGULATORY RECEIVABLE	4	243	-
DEFERRED CHARGES	5	<u>88</u>	<u>-</u>
		<u>\$ 11,132</u>	<u>\$ 1</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 1,887	\$ -
SHAREHOLDERS' LOANS	6	<u>4,950</u>	<u>-</u>
		<u>6,837</u>	<u>-</u>
SHAREHOLDERS' EQUITY			
Share capital	8	4,050	1
Retained earnings		<u>245</u>	<u>-</u>
		<u>4,295</u>	<u>-</u>
		<u>\$ 11,132</u>	<u>\$ 1</u>

(See accompanying notes)

On behalf of the Board:

Dean Reese, Director

[Signature], Director

HERITAGE GAS LIMITED
STATEMENT OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31
(thousands)

	<u>Note</u>	<u>2003</u>	<u>2002</u>
			Note 1
REVENUE			
Revenue deficiency accrual	4	\$ 243	\$ -
Allowance for funds used during construction		<u>175</u>	<u>-</u>
		<u>418</u>	<u>-</u>
EXPENSES			
Operating and maintenance		1,811	-
Less:			
Capitalized expenses		<u>1,811</u>	<u>-</u>
		-	-
Interest	7	152	-
Corporation capital tax		<u>21</u>	<u>-</u>
Net expenses		<u>173</u>	<u>-</u>
Net earnings		245	-
Retained earnings, beginning of year		<u>-</u>	<u>-</u>
Retained earnings, end of year		<u>\$ 245</u>	<u>\$ -</u>

(See accompanying notes)

HERITAGE GAS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

(thousands)

	<u>Note</u>	<u>2003</u>	<u>2002</u>
			Note 1
OPERATING ACTIVITIES			
Net earnings		\$ 245	\$ -
Deduct items not requiring an outlay of cash			
Increase in regulatory receivable	4	<u>(243)</u>	<u>-</u>
		2	-
Net change in non-cash working capital related to operations	9	<u>752</u>	<u>-</u>
Cash provided by operating activities		<u>754</u>	<u>-</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(9,114)	-
Increase in deferred charges		<u>(88)</u>	<u>-</u>
Cash used in investing activities		<u>(9,202)</u>	<u>-</u>
FINANCING ACTIVITIES			
Proceeds from shareholders' loans		4,950	-
Proceeds from share capital issue		<u>4,049</u>	<u>1</u>
Cash provided by financing activities		<u>8,999</u>	<u>1</u>
INCREASE IN CASH, during year		551	1
CASH, beginning of year		<u>1</u>	<u>-</u>
CASH, end of year		<u>\$ 552</u>	<u>\$ 1</u>

(See accompanying notes)

HERITAGE GAS LIMITED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. STATUS OF THE CORPORATION

Heritage Gas Limited was incorporated on August 13, 2002 under *The Canada Business Corporations Act*.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Corporation applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded Heritage Gas Limited the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which Heritage Gas Limited accepted on June 3, 2003. The franchise term is 25 years. Since the date of franchise acceptance, Heritage Gas Limited has acquired and constructed gas distribution facilities and undertaken those activities necessary to establish an operational natural gas distribution utility. A license to operate was issued by the NSUARB on December 19, 2003.

Interim approval of a Schedule of Rates, Tolls and Charges was issued by the NSUARB on December 19, 2003. Heritage Gas Limited activated its natural gas distribution system December 19, 2003. Sales during the period to year end were nominal and therefore operations will be reflected as of January 1, 2004.

These financial statements reflect the basis upon which the Corporation intends to seek regulatory approval from the NSUARB. In early 2004, the Corporation will file a full Tolls and Tariffs application for test years 2004 to 2008.

The NSUARB has approved a cost of long-term debt of 8.75 per cent and a rate of return on equity of 13 per cent. The Tolls and Tariffs application will include the details for the operation of a delivery revenue deficiency account and a gas cost variance account. Adoption of a delivery revenue deficiency account has been applied in these financial statements.

Decisions of the NSUARB pursuant to the 2004 Tolls and Tariffs hearing may result in modifications to regulatory account assumptions used in preparation of these financial statements. Any adjustments required as a result of these decisions will be reflected in the 2004 financial statements.

The Corporation is currently developing a natural gas distribution system within the franchise area. For the year 2004, system expansion is focused in the Dartmouth area of the Halifax Regional Municipality. Over the 2004 to 2008 test year period, capital expenditures for facilities are projected to total \$125,000 thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis since incorporation and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimations. The following accounting policies are considered to be significant:

a. Regulation

The business activities of the Corporation are regulated by the NSUARB.

The Corporation follows generally accepted accounting principles as they apply to regulated entities and reflect the policies of the NSUARB. The NSUARB may give direction respecting specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include, but are not limited to, the sales and distribution rates to be charged for natural gas service and approval and recovery of costs for construction and operations.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for funds used during construction related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

On retirement of depreciable assets, accumulated depreciation is charged with the cost of the retired unit, disposal and site restoration costs less salvage.

Amortization of property, plant and equipment is calculated on a straight-line basis utilizing a fixed rate applied to the previous year closing balance. Amortization rates will be approved by the NSUARB.

d. Revenue recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, will be included in revenue.

During the first five years of operation, the weather-normalized under or over recovery of the annual revenue requirement will be accumulated in a delivery revenue deficiency account and will be recovered from or refunded to customers through adjustments to future rates. Establishment of a revenue deficiency amount is in accordance with generally accepted principles as they apply to regulated entities. This account requires NSUARB approval.

e. Gas cost variance account

A Gas Cost Variance Account (GCVA) is used as a mechanism to ensure that the Corporation neither profits from nor incurs a loss on the sale of natural gas commodity. The Corporation will request approval for the use of a GCVA during 2004. Establishment of a GCVA is in accordance with generally accepted accounting principles as they apply to regulated entities.

f. Income and other taxes

The Corporation is subject to payment of corporate income taxes under the laws of Canada. The Corporation is a rate-regulated enterprise and is following the taxes payable method of accounting for income taxes. No future income taxes are recognized in the financial statements.

The Corporation is subject to Corporation Capital Tax assessed under *The Nova Scotia Income Tax Act of the Province of Nova Scotia*.

g. Allowance for funds used during construction

The Corporation capitalizes an imputed carrying cost on assets under construction. This rate is subject to NSUARB review. The amount capitalized is disclosed on the income statement as allowance for funds used during construction. The recognition of an allowance for funds used during construction is in accordance with generally accepted accounting principles as they apply to regulated entities.

3. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise Acquisition	\$3,329	\$ -	\$ 3,329	\$ -	\$ -	\$ -
Mains and services	4,782	-	4,782	-	-	-
Regulating and metering stations	672	-	672	-	-	-
Meters	15	-	15	-	-	-
Computer systems	38	-	38	-	-	-
Vehicles, equipment	89	-	89	-	-	-
Tools, furniture and leaseholds	189	-	189	-	-	-
	<u>\$9,114</u>	<u>\$ -</u>	<u>\$9,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Franchise acquisition costs represent payments made by the Corporation to reimburse shareholders for costs incurred to acquire the franchise.

In accordance with generally accepted accounting principles as they apply to regulated entities, the Corporation has recorded \$175 thousand as an allowance for funds used during construction. This amount includes a return on equity amount of \$23 thousand.

4. REGULATORY RECEIVABLE

The Corporation proposes to establish delivery service rates to earn its approved rate of return over an initial five year period. Differences in delivery revenue realized from customers compared to that approved by the NSUARB is accrued as a deficiency to be recovered from customers in the future. This proposal is subject to NSUARB approval.

The regulatory receivable includes an accrual of the revenue deficiency based on the rate base employed over the period June 3 to December 31, 2003. The return on rate base is calculated using the Corporation's weighted average cost of capital as approved by the NSUARB.

In accordance with generally accepted accounting principles as they apply to regulated entities, the Corporation has recorded revenue and a regulatory receivable of \$243 thousand respectively.

5. DEFERRED CHARGES

Deferred charges include third party costs incurred by the Corporation related to regulatory proceedings. These costs will be amortized on a straight-line basis over a five-year period commencing in 2004 subject to the NSUARB approval.

6. SHAREHOLDERS' LOANS

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly and all loans are to be repaid in full on December 31, 2009.

	<u>2003</u>	<u>2002</u>
	(thousands)	
SaskEnergy Nova Scotia Holdings Ltd.	\$ 2,480	\$ -
Silgascorp Inc.	1,237	-
AltaGas Utility Holdings (Nova Scotia) Inc.	<u>1,233</u>	<u>-</u>
	<u>\$ 4,950</u>	<u>\$ -</u>

Cash interest paid during 2003 on shareholders' loans was \$158 thousand.

7. INTEREST EXPENSE

Interest expense was as follows:

	<u>2003</u>	<u>2002</u>
	(thousands)	
Interest expense on shareholders' loans	\$ 158	\$ -
Interest income on bank balances	<u>(6)</u>	<u>-</u>
	<u>\$ 152</u>	<u>\$ -</u>

8. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2003</u> (thousands)	<u>2002</u>
Balance beginning of year	1,000	\$ 1	\$ -
Issued during the year for cash	<u>4,049,000</u>	<u>4,049</u>	<u>1</u>
Balance end of year	<u>4,050,000</u>	<u>\$ 4,050</u>	<u>\$ 1</u>

9. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	<u>2003</u> (thousands)	<u>2002</u>
Accounts receivable	\$ (620)	\$ -
Inventories of supplies	(460)	-
Prepaid expenses	(55)	-
Accounts payable	<u>1,887</u>	<u>-</u>
	<u>\$ 752</u>	<u>\$ -</u>

10. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (accounts receivable, accounts payable and shareholders' loans) approximate fair value.

11. RELATED PARTY TRANSACTIONS

Related party transactions with the Corporation's shareholders, and amounts outstanding at year end, were as follows:

	<u>2003</u> (thousands)	<u>2002</u>
Operating and maintenance expenses	<u>\$ 453</u>	<u>\$ -</u>
Interest expense	<u>\$ 158</u>	<u>\$ -</u>
Accounts payable	<u>\$ 393</u>	<u>\$ -</u>